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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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26 April 1984

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

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## INTERNATIONAL AFFAIRS

### POLAND, BULGARIA SIGN ECONOMIC COOPERATION PACT

LD061429 Warsaw PAP in English 1113 GMT 6 Apr 84

["Poland-Bulgaria: Economic Cooperation Programme (Summary)"--PAP headline]

[Text] Warsaw, 5 April--In the course of the visit to Poland by the Bulgarian party-and-state delegation the sides signed a multi-year programme for further development and deepening of economic, scientific and technological cooperation between the Polish People's Republic and the People's Republic of Bulgaria.

The programme aims at securing long-term development of cooperation and at strengthening economic integration between Poland and Bulgaria.

The programme names main fields and forms of cooperation and spells out concrete issues and tasks. The main form of shaping long-term economic relations between the two countries will consist in coordination of national economic plans. The sides will seek mutually beneficial and effective solutions, with particular regard to raising the technological level and quality of production, using productive capacities, expanding specialisation and co-production, better meeting the needs of both sides and reducing dependence on imports from capitalist countries.

The sides attach great significance to tackling questions of economic, scientific and technological cooperation in a complex way. Scientific and technological cooperation will focus on solving key problems of economic cooperation which include: working out and implementing advanced production technology with an eye to effective use of raw and intermediate materials, fuels and energy, raising the technical level and quality of production, introducing most productive machines and equipment and raising the level of mechanization and automation in production.

Particular attention will be paid to working out joint complex solutions to selected problems, with regard to passing from scientific and technological cooperation to specialization and co-production.

The sides will coordinate activities in the field of import and export of documentation and licences, and effective use and further improving of the imported licenses, technologies and equipment.

The tasks concerning development of economic cooperation in key branches include, among other things:

--Deepening the existing production ties in electro-engineering industry, especially as regards metal-working machines, shipbuilding industry, road-construction machines, crane-and-transport equipment, deep-freeze techniques, electronic data processing and radio electronics. The programme also provides for further undertakings in the field of specialization and co-production.

--Effective use of power potential and improvement of technological and technical solutions in mining and power industry.

--Modernization of technological processes and expansion of specialization in production in ferrous and non-ferrous metallurgy.

--Coordination of the development of production capacities in chemical industry and expansion of specialization in certain branches of this industry.

--Development of cooperation in the agricultural-and-food complex and increase in production of articles of everyday use in both countries.

--Increase in all-year-round tourist exchange.

Implementation of these tasks will lead to further division of labour between the two countries and to an increase in mutual turnover, and will make them less dependent on imports from capitalist countries.

CSO: 2020/83

## INTERNATIONAL AFFAIRS

### BRIEFS

POLISH-SOVIET FISHERIES COOPERATION--Moscow, 30 March--As a result of talks held by head of the office of maritime economy, Minister Jerzy Korzonek, here, Poland and the Soviet Union agreed to broaden the exchange of information on the jointly exploited fishing grounds, to make all-round use of the possibilities of both sides to organize transport of fish and fish-processed products, and to (?render mutual) services directly on fishing grounds. Poland and the USSR agreed to establish direct contacts between Polish and Soviet deep-sea fishing enterprises. Minister Jerzy Korzonek told a Moscow correspondent about the great Soviet assistance rendered to Polish fishermen [words indistinct] fishing in the open ocean. In 2 years' time, and due to greater experiences of Soviet fishermen, we could increase our haul almost from scratch to 25,000 tonnes. Minister Jerzy Korzonek added that the sides also discussed cooperation and defining a common stand during the debates of the forthcoming world conference on fishing. "We will jointly come out against the discrimination of our ships and the application of protectionist prices by capitalist states, and for making rational use of our national fleets," said Minister Korzonek. [By PAP correspondent Leslaw Kolijewicz] [Text] [LD302319 Warsaw PAP in English 2124 GMT 30 Mar 84]

CSO: 2020/82

## CSSR DAILY ON 'CRISES' UNDER SOCIALISM

AU041450 Bratislava PRAVDA in Slovak 3 Apr 84 p 4

[Article by Prof Dr Michal Pecho, doctor of sciences: "Real Socialism and Crises Under Socialism"--passages between slantlines published in boldface]

[Text] "Ever since socialism has become a science, it must be treated as a science, that is, it must be studied," (K. Marx-F. Engels, Works, Volume 18, p 536) wrote F. Engels, addressing his words to those who were cutting off their notion of socialism from reality and the actual development of social processes and were seeking in a subjectivist manner unrealistic options leading either to a utopia, to adventurism, or to "barracks" communism. To the present day Marxism-Leninism rightly criticizes such views, in theory as well as in practice.

The theory and practice of socialism has undergone a remarkable development since the scientific beginnings associated with its founders, K. Marx and F. Engels, and since V. I. Lenin, leader of the Great October Socialist Revolution, who was theorist and implementor in one person, formulated its qualitatively new stage. Many new rightwing views have appeared, as have new "leftwing" views. On the one hand, these views were the product of the sociopolitical interests and class origin of their exponents or of their erroneous sociological approach to studying social processes. On the other hand, however, they were also the product of a mistaken implementation of the principles that characterize socialism as the initial stage of communism. Let us mention some of them. Since the first congress of the renewed Socialist International in 1951, social democratic parties have once again been renouncing Marxism as an "outdated doctrine" and replacing it with so-called "new democratic socialism." From the historical viewpoint, this is nothing but a continuation of the ideology of democratic socialism advanced by E. Bernstein and K. Kautsky, the ideologues of the Second International; the social democratic parties participating in the Second International gave parliamentary support to the European bourgeoisie during the outbreak of World War I.

This ideology stipulates neutrality in world outlook and class matters and a policy of "partnership" and cooperation between the workers class and the bourgeoisie. Naturally, this serves as an objectivist mask of actual bourgeois partisanship. Social reformism, which is based on the idea that the capitalist society can be transformed by means of reforms and not be a revolution, is an



illusion that disarms socialist revolution. Let us recall what was being propagated in Czechoslovakia during the years of crisis (especially in 1968). The program in our country was socialism "with a human face" as a "new" form of democratic socialism. This was to be a so-called "civil society," the representatives of which were to be "representatives of diverse groups." It was even being argued that "civil society is a product of the European civilization." There were no classes in this concept, and hence no class policy, there were only groups and an "all-human civil society." The national uniqueness of the development of socialism in Czechoslovakia was being stressed.

And what was the course of the counterrevolutionary development in Hungary in 1956? It, too, drifted with the waves of nationalism, against the principles of socialism built in a realistic manner on the basis of the joint ownership of the means of production. The exclusiveness of the reformist Hungarian path, which was represented by Imre Nagy, was stressed.

In the Polish People's Republic, the movement towards a national socialism, a movement strongly marked by political Catholicism, was to shape a "new socialism" befitting the "Polish mentality and national traditions."

What were the causes of these seemingly different yet essentially self-same nonclass, nationalist, and reformist programs, views and sentiments? Comrade Jaruzelski's analytical words about the deviation from socialism in Poland are credible. He writes that the Ninth PZPR Congress "showed that the critical situation was caused, above all, by a serious backing away from the principles of Marxism-Leninism in the process of building socialism. This was manifested, in particular, in violations of the norms of internal party life; bureaucratic and autocratic limitations of socialist government by the people; a simplified and indifferent approach to ideological work among people, especially the young generation; in voluntarism in economic policy, especially the disproportionate proliferation of capital investment; as well as in the fact that our national economy found itself in excessive credit dependence on the West. The enemies of our system took advantage of these mistakes and launched an all-out attack on the party and socialism." Comrade Jaruzelski further notes that the interaction of the domestic and foreign enemies of socialism was very close and coordinated (Problems of Peace and Socialism No 11/1983).

The assertion of rightwing opportunist views on the development of socialism in the sphere of politics, the economy, but also theory is based on the consciousness of those groups in society that are opposed to socialism. In the period of transition from capitalism to the construction of the foundations of socialism, these groups have relatively strong ties with the political representatives of bourgeois countries. But even [word indistinct] spread the petit bourgeois notion of socialism as a "consumer-type society" are in favor of co-operation between the bourgeoisie and the workers class and their partnership and protect the freedom of private enterprise. The same is true of some misled proletarians and small farmers.

Seen in historical perspective, in the period of transition from capitalism to socialism--which means essentially in the fifties, in the years of the formation of the world socialist system--the sociopolitical power in the individual

countries was young and fragile since a relatively strong and well-organized reaction against socialism was still exercising an influence in that stage. In every country, the onslaught of counterrevolutionary forces took a different form and availed itself of different methods. After seizing political power, the workers class must reckon with the resistance of the overthrown classes.

In Hungary, under the conditions of a still-very-weak political power, accentuated by the subjectivist policies of the Rakosi leadership, fascist Horthy-ite elements were becoming organized and were rallying around themselves many politicians, former officers and the bourgeoisie, which was affected by nationalization. They were actively aided by the church hierarchy led by Cardinal Mindszenty.

In Czechoslovakia, the counterrevolutionary development found its base among a segment of the intelligentsia, including the party leadership, other political parties, social organizations, and the entire political system, as well as among representatives of former bourgeois parties with fascist orientation. Developments after January 1968 confirmed that the rightwing was waging a purposeful attack against all values of socialism and was systematically bringing about the disintegration of the party and the entire political system. However, it did not succeed in penetrating the production sphere in industry and agriculture. Not a single united agricultural cooperative was dissolved. The workers class in individual plants defended the positions of socialism against the endeavor of the rightwing to infiltrate the management system of the national economy. The larger segment of the intelligentsia remained on the positions of Marxism-Leninism.

Under the specific conditions in Poland, as follows from the above words of W. Jaruzelski, the reaction penetrated the immediate production sphere and provoked considerable discontent among a segment of the workers class. This was possible, apart from other reasons, because the great indebtedness in the West and technological dependence on many Western companies ruined the national economy to such a degree that a /critical situation/ emerged also in the national economy.

We are not interested here in a detailed analysis of what happened in individual countries. What we are interested in is finding the common denominator of the causes, especially in the political sphere, which were responsible for the growth of counterrevolution and antisocialist orientation.

/The unchanging and lasting values of socialism have their theoretical as well as practical value, which was tested by the entire history of the development of the Soviet Union but also by the experience of individual socialist countries during their own existence./ That is why these values are a common denominator in looking for the causes of their violation in the aforementioned countries.

The "Lessons from the Crisis Development in the Party and Society After the 13th CPCZ Congress" say about them: "Among the lasting and unchanging values of socialism are: the leading role of the party and its vanguard--the Communist Party; the role of the socialist state as an instrument of the dictatorship of the Proletariat; Marxist-Leninist ideology and its assertion by means of all

instruments of mass influence; socialist social ownership of the means of production and the principles of a planned national economic management; and the principles of proletarian internationalism and their consistent implementation in foreign policy, especially in relations with the Soviet Union."

These values also express the principles on which the socialist society is based. They represent communicating vessels. If, for example, the leading role of the workers class and the communist party is weakened and the party adopts a pluralist policy, sharing political power with another party, it cannot implement even the other principles governing the building of socialism. This is the case because politics [politika] and its supreme representative, the Communist Party, face, according to Lenin, an even more difficult task after the workers class takes over political power from the bourgeoisie [then was the seizure of political power itself]. This is the task of organizing a socialist economy and culture. The clarity of this proposition becomes even more obvious if we realize that, in contrast to the bourgeois revolution, the socialist revolution only begins with the seizure of political power. Socialist production relations do not originate in the fold of capitalism whereas, on the other hand, the bourgeois revolution ends once the bourgeoisie takes over political power.

The politics of the workers class is represented by the Marxist-Leninist Party. The decisive influence of communist policy [politika] on building socialist production relations in industry and in agriculture must be evident from the very first days of the dictatorship of the Proletariat. In studying the development of rightwing political tendencies in the countries of socialism, we can seek all their causes, above all, in the subjectivist policy, the gnosiological and social sources of which always lay in the bearers and representatives of this policy. Politics is both a science and an art, Lenin reminded us; but at the same time he elaborated his well-known thesis that politics cannot but have priority over the economy. It is known that the development of the economy is stimulated by political affairs [politika], but also that political affairs are determined by the rate and efficiency of economic development. /This interrelation and unity of politics and the economy, and their mutual interdependence remain the basic value and principle of socialist development also in building the advanced socialist society./

Real socialism is derived from the basic, unchangeable values mentioned above--from the way they are implemented, whether successfully or not; from the fact whether the subject, the Communist Party, realizes an error, a mistake it has made, and the danger of these values being deviated from; and from the basic values of the socialist revolution. This, in essence, also provides the answer to questions about the sources of knowledge and the definition of real socialism.

The term real socialism has also found its way to the international theoretical conferences of Marxists-Leninists. The necessity of elucidating this term also followed from the differing economic standards in individual socialist countries, from their different development and rate of economic growth, but also from the different methods used by them in approaching socialist construction. But it is particularly important to point out that contemporary ideological adversaries are endeavoring to foist on us their own notion of real socialism. It is logical that the advance of the international workers' movement, as well as the

powerful national-liberation movement, both provide us with a lot of new experience in the anti-imperialist fight. The dialectics of this process is that, even today, it carries with it petty bourgeois notions and opinions on socialism. There emerge continental opinions about an "African" socialism, or an "Arab," "Asian," and "Latin Maerican" socialism, and so forth.

These continental opinions contain ideas on "individual" national and religious paths to socialism. This is, essentially, a national kind of socialism: for instance, "Kenyan socialism" (T. Mboya and J. Kenyatta); Tunisian socialism (H. Bourguiba); and Islamic socialism.

In today's modern reality the rightwing interpreters of Marxism-Leninism and its revisionists are expanding their ranks. One of them, L. Senghor, is promoting the idea that the Europeans had worked out Marxism for the Europeans, and that for the Africans it is merely a catechism; in this he strongly leans on the ideas of European revisionists like R. Garaudy and others, and he is fighting for the elimination of "rightwing and leftwing imperialism." In Marx and Engels he rejects their class fight, the function of the state, and the laws on which socialism is built. He adheres to the "method," which, from positions of pragmatism, he recognizes in the classics.

We do not have space here to analyze these views more broadly. The study of the thoughts of many African and Arab, but also Latin American or Asian, representatives of rightwing opinions leads the social movement. First, to the opinions and programs of social democracies, and the socialist international is intensely striving to make use of this. Second, the ideothoretical experience of the communist movement--which is very young there and is developing on soil in which bourgeois and petty bourgeois ideas have taken deep root on a very wide scale--reflects the weakness and immaturity of their workers class, and is a weak social medium for spreading Marxism-Leninism. And finally, that part of the national intelligentsia, which speculating in its air-conditioned studies, considers itself entitled to reflect about "new socialism" without Marxism-Leninism enjoys an almost free field of action.

These national socialisms and all the ideas about them are also penetrating the minds of certain theoreticians of the social sciences in the socialist countries. True, there is no particular threat from this quarter, if one is aware of the incorrect opinions, and fights them.

There is no doubt that every country introduces new knowledge into the socialist revolution. But the basic truth is that every new revolution is duty bound to learn from the knowledge and experience acquired to date in socialist construction in the Soviet Union and the other socialist countries. It is duty bound to adopt [osvojit si] the values of the socialist revolution, and also its principles, which are based on the theory of Marxism-Leninism as well as on the tested practice of construction in the socialist countries.

But not everybody respects this basic premise. The endeavors and tendencies to take the so-called "another," easier path of compromise without a class fight, which is essentially a path of opportunism, are much more attractive for many people. In this context V. I. Lenin's words are most topical: Namely, that "opportunism is no coincidence; it is not a mistake, an inadvertency, or betrayal by individuals; it is the social product of an entire historical era"

(Works, Vol 21, p 216, Slovak Publishing House of Political Literature, Bratislava 1956).

We expect opportunism and its notions of socialism will vary, both today and in the future. It is necessary, today and at every step, to wage a battle against incorrect opinions and against the opportunist line, regardless of who this may concern.

Today, too, various opinions are emerging about the path toward socialism, about variants of socialism, and even about models of socialism. At the same time this "emergence of variants" follows, in theory, from the error of overrating the national and underrating the international--that is, the international experience of socialism. It must be added that in certain international discussions it was seen that certain authors of the variants consider the variant synonymous with a model--that means a new model, the so-called "third way." In the political situation this is manifested in emphasis on national policy. It must be said outright that the /communist policy/ cannot be a Slovak, Czech, Russian, Ukrainian, or Hungarian or Romanian, Polish, Bulgarian, Chinese, Albanian policy, and so forth. The substance of this policy can only be international, characterizing proletarian and socialist internationalism and based on the principles of socialism. The national form of policy is realized according to the different economic and other conditions that characterize the level of development and the efficiency of the activity of the entire political system of socialism. The adversaries of Marxism-Leninism regard this as an uncreative, so-called dogmatic, approach.

Today, too, the process of acquiring knowledge produces two opposed and unappeasable standpoints. The Marxist-Leninist view of real socialism is clear in that not all that is called socialism, is socialism. /Real socialism is characterized by the implementation of principles of the socialist revolution while leaning on and utilizing the experience of the first country of socialism, the USSR./ These principles cannot be applied in the same form in every country. Everything depends on the methods and the leading force of the workers class, and on the influence of the communist party, but also on that of the reaction and of the adversaries of the socialist revolution.

The adversaries and opportunists of various shades consider everything to be real socialism: both opinions, and the extremes that occurred in Kampuchea under the Pol Pot regime, which did such terrible damage to socialism and communism. We know that in that case there was a deliberate discrediting of socialism under the international political and military influence of imperialism. That is why there is a substantial difference between real, and real, both in theory and in practice.

That is why the criteria of the theory and practice of today's real socialism can be applied in the internal development of every country on its way to socialism; this applies to:

--the international unity and political course of the socialist countries according to the principles of proletarian and socialist internationalism;

--respect for the operation of new historical laws governing socialist integration, and participation in the advantageous international division of labor among the socialist countries, particularly with the USSR; and the constantly diminishing economic and technological dependence on the capitalist countries, particularly in developing the scientific-technical revolution;

--the joint participation in and development of the science and scientific-research activity of the socialist countries, as well as the mission of science in the scientific-technical revolution and its merits under socialism;

--the constant care for improving the living and cultural standards of the people and of the country;

--the systematic care for the development and closeness of the peoples of the socialist countries;

--the socialist countries' joint participation in a common modern defense against the war danger of imperialism;

--the constant material, political, and moral assistance to the national liberation movement and the international workers class in the capitalist countries, on the basis of proletarian internationalism;

--the systematic ideological world-outlook and ideological education of the broadest people's strata in the spirit of Marxism-Leninism, and the development and closeness of the socialist peoples;

--the development of the arts and the socialist way of life.

The successful advance on the basis of these factors is strongly determined by international circumstances. The existence of imperialism and its policy aimed at confrontation influence material growth and the economic rate, as well as political opinions, from outside. The anticommunism of imperialism which, apart from threatening force, provides ideological incentives against socialism and expends a lot of energy on ideological subversion; at the same time it is striving in particular to split the unity of the socialist countries. The core of anticommunism--anti-Sovietism--is above all meant to separate the countries of socialism from the USSR as the main guarantor of socialism and peace in the world. At the same time it is already generally known today that this is finding no social addressee among the working people.

The dialectics of the contradictory development in individual socialist countries resulted in new problems arising once the foundations of socialism had been built, problems that had not been known before, but had only been expected. Whereas in the period of industrialization and collectivization quantitative growth was of greatest importance--in our country too--in building advanced socialism, the stress is on /quality and effectiveness./ The advent of the scientific-technical revolution, mastering it, and enhancing its virtues under socialism while developing the social advantages of the working people--that is the new orientation that requires new thinking and new management. And the new means to develop the international division of labor as one goes along and in the course of restructuring production sectors. The demands on cadres, the

willingness and the need to abandon national limitations in the economy, but also in politics, a sense of perspective--all this is a historical watershed, which--also under socialism--cannot be separated from influence on crisis developments.

Crisis under socialism. Does it exist, or does it not; from what does it stem? From the experience of the development of socialism one can--in some stages of its development--speak about a crisis development. Not in general, but in individual spheres of the sociopolitical process. Above all, the sphere of politics and economics, a matter which during a prolonged crisis development affects the moral, but also the cultural sphere.

While the primacy of politics and the fact that it is determined by economic development under socialism is of immense importance, political management influences the entire activity of social development. The victory of the workers class and its elevation to a class ruling on the basis of its strategic objective--the building of socialism--must realize social objectives in practice. Thier foundation rests on raising the people's material and cultural standards. When what is involved is a transitional period in which the problem of "Who will end up on top" has not been resolved yet, this stage of development means that there still exist forces within the country that have not politically joined the side of socialism, and that will make immediate use of any international and internal aggravation of situation against socialism and its political system, against the policy that is the foundation of the power of the workers class, and against the Marxist-Leninist Party, which guarantees this power politically.

One therefore has to ask: Does a crisis of socialism, or crisis development under socialism exist? Crises are not inherent in socialism, as is the case with capitalism. When we speak about socialism, we do not do so in an abstract manner, but we speak about a concrete thing in a specific country. In the aforementioned objective conditions of development toward socialism the principles and criteria contained therein have validity and go through individual stages. In these conditions it applies that /it is not socialism that causes a crisis of socialism, but the lack of socialism causes a crisis development./ We also come across assertions (originating with opponents of real socialism) that crises of socialism have a "cynical" nature and that they are intrinsic to socialism.

In the current very aggravated and escalated ideological and anticommunist struggle against the world socialist system and everything that is progressive, there has emerged in the capitalist countries, and especially in the United States of America, a whole "academic complex" of bourgeois sociologists and philosophers, "Kremlinologists," "Marxologists, 88 and "interpreters" of the Lenin concepts of socialism.

Their philosophical substance proceeds from a revision of Marxism-Leninism and the creation of "new models" of socialism. What is involved, in essence, are idealistic views that adhere to "teleological" principles, which in essence means that the laws and objective laws of social development are not studied, and they are thus not reflected in the scientific theory of historical development, but are subjectivistically constructed on the ideals of authors. The

"model makers" of this kind not only fail to proceed from a realistic knowledge of socialism, from the all-round economic, political and other aspects of socialist development, from the interests of the workers class and all working people, but they pass off their class-bourgeois and party and petty bourgeois philosophical notions as the top criterion for assessing socialism. These notions, torn away from reality, founded on general, essentially destructive objectives are intended to turn people against real socialism.

Their /method/ is to present the ideals to which socialism aspires as [a phenomenon of] the present, and they confront this present with socialism, again from philosophical and class positions, and on the basis of this confrontation they deduce by means of formal logic that our path to socialism is "outdated." [sentence as published] By employing such logic one can deduce a "crisis" of socialism. This is a pseudoscientific approach, which clearly pursues the aim of denying real socialism and its new problems in the current era of the divided world, but also in the new stage of socialist development. We are aspiring to an ideal. But this is a complex of problems, not only economic and scientific, but also moral. If in the present stage of development there applies the principle From Each According To His Ability, To Each According To Quantity and Quality Of Socially Useful Work Done, and some people would already like [to receive] "According To Need," then it is understandable that the standard of the present-day socialism is "not enough for them," because they have interpreted socialism as a society in which one does not have to work, in which there are only hand outs, or in which it is permitted to take from the common property regardless of what one has contributed to it.

Is, then, the crisis development also taking place in the consciousness of the people, or in the morals of society? It is not. What is involved here is a struggle for a new consciousness of society, for the assertion of moral qualities of the man of socialism and communism. The long period that society needs for changing the Weltanschauung and the moral and social attitude of the builder of socialism has only just begun. A realistic look at the youth of the socialist community shows that Marxism-Leninism correctly expects that the consciousness of society will lag behind the development of the material base. No one has thoroughly analyzed the word "lags" yet. The fact is, however, that it expresses objective lagging; but it also has its subjective causes: in the entire mechanism of man's education, in the sphere of material incentives, but also in the overall cultural standard of preparing man for /socialist civilization./ This, on the whole new, civilization, combined with the most humane social order--socialism--is on the threshold of its development, at its beginning, but it does really exist already. During this real existence our theory about it is also being developed, a theory that has to generalize this real knowledge, and formulate concrete tasks in the current stage of building advanced socialism as--still--the first stage of the communist socioeconomic formation.

The crisis phenomena in the first stage of communist construction require scientific analysis. Ultimately there is the finding that a lack of socialist ideas and practice preserves the old and contributes to crisis tendencies and crisis developments also under socialism. But in their essence, the crisis phenomena do not arise from the lasting values and principles of socialism.



Both now and in the future there will emerge in the ranks of bourgeois theoreticians "new" views with the aim of discrediting socialism in the eyes of their fellow citizens in the capitalist countries, tarnishing it, continuing to make it the bogeyman of communism, and conceal the true essence of its peace-lovingness, of its humaneness. The main task of the bourgeoisie is to calm its social rear. Unemployment is rising, the danger of war from the side of imperialist countries is increasing, and there is no way out of this tragedy, which is already affecting millions of people. Only socialism provides solutions and shows the reality of peaceful development.

CSO: 2400/303

MEASURES FOR REDUCING WIND EROSION DISCUSSED

East Berlin BAUERN-ECHO in German 25/26 Feb 84 p 6

[Article by Dr G. Schnurrbusch, Institute for Landscape Research and Conservation, Halle: "Protective Plantation Lessens Wind Erosion"]

[Text] The removal, shifting and depositing of soil particles presupposes the interplay of several favorable and necessary factors.

In general it can be established that light to average soils and areas in open terrain are particularly in danger. In line with this, according to the data of standard scale agricultural site plotting (MMK) primarily the nonsaturated sandy D-sites as well as the substrata of the loess belt which have cover loess and sand loess are shown to be extremely susceptible to wind erosion. The substrata mentioned must be considered as "moderately susceptible" if they show evidence of saturation. The same is true of deep loam substrata, light to average substrata of the foothill sites and of drained moor sites.

Large Parts of Agricultural Land in Great Danger

Some 28 percent of agricultural land in the GDR is in great danger according to susceptibility based on the substratum--as derived from the MMK; 18 percent of agricultural lands are considered to be moderately susceptible.

Conclusions can easily be drawn about potentially threatened area from the susceptibility to wind erosion which can be derived from important site characteristics. Acute damage takes place in these areas if the following factors are at work at the same time:

- drying of the surface,
- missing or weakly developed vegetation cover,
- unfavorable structural aggregation of the soil,
- "critical" wind speed which results in removal of movement of soil particles.

Each of the factors cited is variable so that even its effects if there is erosion can be weakened or limited. As in the case of water erosion the vegetation cover is also of fundamental importance for the occurrence and the intensity of wind erosion. Density, compact stands of fodder crops such as grass clover, alfalfa, but also winter grains and corn in an advanced stage of development therefore offer good protection from wind erosion.

On the other hand the danger of acute wind erosion damage increases when growing such crops as potatoes, rape, field vegetables and corn during early development, especially if this takes place at the same time as a drying period early in the year.

The most important fundamentals of effective protection against wind erosion which are agriculture and crop-based can be derived from what has been said:

- Limiting extensive drying by doing without unnecessary soil cultivation operations,
- Enhancing capillary backup water supply from the subsoil with the use of clod crushers,
- Extensive shortening of the time without protective vegetation cover by guaranteeing optimum schedules for cultivating and planting and maximum planting of subseeds and intermediate crops,
- Guaranteeing a good supply of organic material,
- Adding liquid manure as a means for short-term hardening of the soil surface,
- Using winter grains in place of summer grains,
- Planning and implementing field segments  $\leq 400$  m wide in the main wind direction.

These measures are in complete accord with the objectives of advanced agriculture. They can be implemented quickly and at low cost so that it is appropriate to call them "production-integrated methods for erosion protection." With their help even the "critical wind speeds," which can be at about 4.0 m/s if there are unfavorable texture conditions and poor farming, shift to values approximating 15.0 m/s.

All windbreaking landscape features, such as protective plantation, avenues, dead furrows, slopes, forest edges, and similar things, must be evaluated on a priority basis in respect to their wind protection function and must at the same time be tested to determine to what extent functional improvements can be achieved by maintenance and reconstruction measures. It is a basic principle that narrow protective plantations through which the wind can blow to some extent and which are arranged either crosswise or diagonally to the direction of the wind offer the best effect. This makes it possible to join such plantings which protect the area to existing roads, outlet ditches and other fixed boundaries. In this way technological difficulties are avoided and the land requirements are minimized.

#### Maintenance Capacity Is Decisive

The effect of protective plantations is a direct function of their height in respect to appropriate functional structure and the corresponding design. In this regard it can be assumed that the effect of protective plantations in

moderating the wind can be demonstrated for a range that equals 40 times their height. Rapidly growing kinds of trees, which quickly establish adequately high stands, must be used as the primary creators of such stands. In this 6- to 8-year old plantings can achieve growth heights between 8 to > 10 meters.

In every case one must proceed according to the plan and in a deliberate fashion using documentation which must be developed according to TGL 28 939/01; in this regard consideration must be given to the fact that for the success of a protective plantation and thus for the effectiveness of the investment which is at issue in each case the decisive factor is not the capacity to carry it out, but rather the available maintenance capacity.

Exact documentation of all instances of erosion using the rotation card file is a great help in deriving key points that relate to time and space of effective erosion protection measures.

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GERMAN DEMOCRATIC REPUBLIC

BRIEFS

TRADE AGREEMENT WITH AFGHANISTAN--From 2-9 April, the GDR-Afghanistan Joint Commission for Economic and Scientific-Technical Cooperation, held its 4th conference in Kabul under the direction of GDR deputy minister for foreign trade, Dr Kurt Fenske, and Afghan deputy minister of trade, Abdul Salam. Subjects of discussion were further economic cooperation and possible GDR support for the development of Afghan industry. A new trade and payments agreement was signed by the two countries, according to which the GDR will supply electronic equipment, construction machinery, household appliances, TV sets and chemical products for household use to Afghanistan in exchange for dried fruits, small animal pelts and other typical Afghan products. [Excerpt] [East Berlin NEUES DEUTSCHLAND in German 10 Apr 84 p 2]

FOREST SPRING PLANTING--The planting season in the forests of the GDR has begun. On a total area of 21,600 ha, coniferous and deciduous trees are being planted this year, primarily in the spring. There is a total of 2.8 million ha of forest land in the GDR, which is somewhat more than 25 percent of the territory. The major supplier of forest plants is the Kluess tree nursery, which this year provided more than 1 million seedlings for reforestation to nearly all bezirks. [Text] [East Berlin NEUES DEUTSCHLAND in German 29 Mar 84 p 3]

MORE INDEPENDENT CONSTRUCTION WORKERS--Roughly half of all services in the kreis-managed construction industry of Leipzig Bezirk is provided by cooperative and private construction workers. The 97 artisan producer cooperatives in construction alone supplied services valued at M175 million in 1983, primarily in the areas of maintenance and reconstruction as well as remodeling and expansion. This key number is to be surpassed by at least 3.2 percent in 1984. The increased use of technological lines and special brigades will gain in importance. [Excerpt] [Leipzig LEIPZIGER VOLKSZEITUNG in German 4 Apr 84 p 2]

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MARKET PROBLEMS OF MACHINE INDUSTRY FIRMS ANALYZED

Budapest KULGAZDASAG in Hungarian No 2, 1984 pp 21-34

[Article by Ivan Schweitzer, candidate, department head, Institute for Business and Market Research: "Order of Magnitude and Market Behavior of the Hungarian Machine Industry Enterprises"]

[Text] For decades the development of the structure of Hungarian machine industrial enterprises was characterized by centralization processes, mergers, takeovers. The consequences of this vigorously manifest themselves in the machine industry: the number of enterprises has declined steadily and is very small in international comparison. Within this the overwhelming majority of enterprises in the state operated industry have over a thousand employees, and the number of medium sized enterprises and those employing less than 100 people are very low. This extraordinary size structure--the "inverted pyramid"--is accompanied by the monopoly position of enterprises and the fact that a number of products and spare parts which can be efficiently produced by small enterprises are again and again becoming shortage items due to the lack of interested entrepreneurs. The relative lack of medium sized and small enterprises (of 10-100 persons) is also causing other difficulties because on the basis of supply responsibility it forces the large enterprises to follow compulsory paths, and hinders the development of healthy cooperation between enterprises and of the market conditions. Enterprise size also significantly influences the foreign market behavior of machine industrial enterprises in connection with export. Relationships with the socialist countries and standing their ground on the capitalist market call for different ways of behavior and behavioral requirements. The CEMA relationships are dominated by the governmental level, the product composition of sales and the decisionmaking and agreement system are in harmony with the centralized large enterprise organization. In contrast with this the requirement of increasing capitalist export makes it necessary to exploit opportunities on smaller volume markets, supply the appropriate spare parts and service, and mainly: develop the product structure flexibly, in accordance with the market trends. The machine industrial enterprises which were adjusted to the domestic and CEMA situation, have not yet gotten used to these requirements. In order to develop the domestic market and adjust to the international situation it will continue to be necessary, among other things, to correct the size structure of enterprises.

Immediately after nationalization in the late 1940s the decrease in the number of independent enterprises began in the Hungarian machine industry and continued almost unbroken until the 1980s.<sup>1</sup> The most important format of this process in state owned industry is for the authorities to combine the existing enterprises or take over smaller enterprises by the larger ones, and in the cooperative sector to merge. The fact that in the meanwhile very few new enterprises came into existence, further strengthened this centralization process.

Table 1

Development of the Number of State Owned Enterprises and  
Cooperatives in the Machine Industry

Year	State owned enterprises	Coopera- tives	Year	State owned enterprises	Coopera- tives
1960	318	200	1971	189	172
1961	313	180	1972	188	171
1962	303	181	1973	186	172
1963	202	169	1974	182	172
1964	197	155	1975	178	167
1965	193	153	1976	163	167
1966	191	150	1977	160	162
1967	188	147	1978	156	158
1968	202	160	1979	155	155
1969	201	172	1980	156	159
1970	202	171	1981	166	162

Source: Statistical Year Books, KSH [Central Statistical Office], Budapest

The reason for the centralization process is a complex one. One of its starting points was the illusory belief that the superiority of large scale economic operation will unconditionally and everywhere prevail. This was reinforced by the opinion--which oversimplifies and distorts the scientific facts--that even if the advantages of concentration and large volume mass production, that is, the order of magnitude savings (economies of scale) cannot always be implemented by merely increasing the organizational units, they can at least be achieved more quickly. During the course of these ideological approximations in practice it could be seen all along that the central economic management was trying to handle the difficulties of economic operation which in certain intervals regularly became sharper--particularly the consequences of insufficient development of cooperation between the domestic enterprises--increasingly by organizational changes and centralization. (This will be discussed later in more detail.)

1. Table 1 provides a picture of the way the number of machine industrial enterprises developed since 1960.

In the centralization process we can observe certain periods of concentration. One such was the large reorganization of state operated industry in 1962-63, which very strongly affected the machine industry. The number of machine industrial enterprises decreased from 313 in late 1961 to 197 by the end of 1964, while the average number of employees per enterprise increased from 854 to 1525. This represents an extremely high employment concentration which is almost without parallel in the world.

Following this the centralization process broke off beginning with 1968, the year of mechanism reform, for a few years: between 1968 and 1970 the number of state operated machine industrial enterprises even increased slightly, and went over 200 temporarily. After this, beginning with 1971--as a consequence of mergers which began again and continued steadily each year--it proceeded to its 1979 low point with an unbroken line of decrease, when only 155 enterprises remained and their average employment assumed an even more extreme value than before: it increased to 2340 (!) employees.

A similar process was taking place also among the machine industrial cooperatives. Their number decreased from 200 in the early 1960s to 147 in 1967, then rises over 170 between 1968-1974. It begins to decrease after this and at the low point in 1979 it is at 155--which also happens to numerically agree with that of the state operated enterprises, as a coincidence.

If we now simply study the way numbers developed later, we can still see that a change has taken place since 1980. Statistical data show that the number of enterprises increased by only one in 1980 in the state operated machine industry, but it rose by 10 in 1981 and by 10 again in 1982. The cooperative circle also expanded, the increase in the number of machine industrial cooperatives was four in 1980, three in 1981, and four in 1982--without the new type, the so-called small cooperatives. In 1982 the number of enterprises and cooperatives did not yet reach the number of these same around 1968-1970, thus the growth cannot be called spectacular. In spite of this, due to numerous other signs great significance must be attributed to the fact that the merger process seen until 1979 halted, and on the contrary: an opposite process has begun. In 1980 organizational units (factories) of several large enterprises became independent.

Effective 1 January 1981, the Gabor Aron Machine Factory and the Sopiana Machine Factory became independent of United Incandescent, the Battery and Dry Battery Factory [became independent] of the VBKM [Electrical Equipment and Appliance Works], and three factory units in the districts: the Bonyhad Enamel Products Factory, the Kecskemet Enamel and Bathtub Factory, and the Salgotarjan Iron Foundry and Stove Factory became independent of the Lampart Enamel Industrial Works (since then renamed Lampart Chemical Industrial Machine Factory).

The process continued in 1981. The VBKM was dissolved, and five of its factory units continue to operate as independent enterprises. (These are: GANZ Switch and Appliance Factory; EL-CO Electric Appliance and Repair Materials Factory; Electric Appliance and Material Factory (EKA); Electrical Equipment and Electronics Enterprise; Elekthermax Enterprise, Papa.) The



Laminated Products Factory and the Writing Implements Factory have split off of the Elzett effective 1 January 1982. New enterprises have also been formed. The Microelectronics Enterprise was set up composed of the Communication Technology Research Institute and the semiconductor experimental manufacturing department of the United Incandescent Corp. The MEDICOR Works established a subsidiary enterprise by the name of MEDAKKU.

But according to the signs the emphasis of this process was shifted in 1982 slightly from making the factory divisions of major enterprises independent to the circle of smaller enterprises and the so-called small enterprises. The winds of change also affect the enterprises under council supervision. The most significant movement here is the break-up of the AFIT [Industrial Trust for Auto Maintenance] automobile repair trust and of the GELKA [Electrical Maintenance Enterprise of the Machine Industry] machinery repair service enterprise organizations into 39 and 71 small local enterprises, respectively. Other local machine industrial service enterprises are also formed. Among the industrial cooperatives also more significant changes are seen only in 1982: about two dozen new machine industrial small cooperatives are formed. This large scale growth is already a part of that enlivening which we have seen recently around the establishment of the so-called "small enterprises."

In the three-and-a-half decade history of Hungarian centrally planned economic operation the transformation of enterprise structure took place in a strongly centralized way based on central decisions. As we have already mentioned, the centrally organized enterprises were aimed at solving, or more correctly rather easing certain centrally sensed economic operating difficulties, even though generally they did not even reach this more modest goal. The changes in enterprise organization which occurred since 1980--making some factory units of the major enterprises independent, eliminating the national centers of local service enterprises, and last but not least supporting the establishment of small enterprises--indicates that the central economic management is reacting in a new way in recent years to the economic difficulties which, just like all over the world, are also increasing in Hungary. One of the first definitions of this change in outlook were the words of Lajos Faluvegi, minister of finance at the time, in the summer of 1979 during the summer session of the national assembly, exercising self criticism about the earlier processes: "Our major enterprises were swallowing up large numbers of the smaller, mostly council operated enterprises and cooperatives, thus obtaining manpower, plant sites, and security instead of the otherwise lax contractual relationships, but this also often increased their respect and perhaps their monopoly positions. Self critically we have to say that the central economic management also contributed to this process in recent years by--in choosing the easier way out--too easily acknowledged the branch and local interests." (NEPSZABADSAG 15 June 1979) In our judgment--and most Hungarian economists agree on this--the organization-institutional questions and within this, stopping and turning around the enterprise centralization process has a significant role in the long range solution of the Hungarian economy's present problems. The machine industry's example shows especially well that centralization and mergers even earlier did not contribute to solving the increasingly difficult tasks the country's industry is facing, quite to the

the contrary: the overcentralized organization became a deep obstacle to solving the economic problems. In this brief study--using the machine industry as example--we will try to examine these very same phenomena in order to make it clear to the reader how overcentralization came into contradiction with the recognized and announced economic tasks, which in the final analysis must exert very strong compulsion to eliminate overcentralization.

But first we will characterize the extent and nature of overcentralization with a few data.

#### Enterprise Size Structure in the Early 1980s

When we characterize the size of enterprises by the number of people they employ, in most of the world's countries--with the exception essentially of the countries with centrally planned economies--we find a "pyramid" in industry the base of which consists of the large number of small enterprises and in which there are fewer and fewer enterprises as we approach the peak. An "inverted pyramid" can be drawn in Hungary in contrast with this--and as an exceptionally extreme case even among the countries with centrally planned economies. There is an unparalleled high number and ratio of enterprises with employment over 1000 persons, the number of medium sized enterprises with between 100 and 1000 people is smaller than this and very low in international comparison, especially when compared to countries with market economies. The number of state owned and cooperative enterprises with less than 100 people also corresponds to the "inverted pyramid," that is negligible.<sup>2</sup>

Such "inverted pyramid"-like distribution of the size structure also characterizes the Hungarian state operated machine industry. (I found data about the state's enterprise in such breakdown. At the machine industrial cooperatives the "inverted pyramid" is implemented probably to a lesser extent, as the ratio of medium-sized cooperatives with between 100 and 1000

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<sup>2</sup> I must note that I have decided against including the private sector's small scale industry which under the given conditions plays an extremely limited role in industrial activity, and the "second economy" which conducts nonlegalized activity, in drawing the picture of the "inverted pyramid" not only because of statistical difficulties but also because I do not consider it justified. As far as the private sector's small industry is concerned, the activity of small artisans has been pushed into the peripheries in the past by limitations on the number of employees, on their spheres of operation, on machinery and material supplies, and numerous other restrictions. Until most recently small craftsmen could work with a maximum of four employees. Let me call attention to the fact that in quite a few Western European countries this number of an enterprise's employees is below the lower limit of consideration for statistical purposes. For similar reasons I also left out of consideration the "second economy" which is very important from other viewpoints but is inherently peripheral in industrial operation. I am examining in more detail the "inverted pyramid" phenomenon in my book titled "Enterprise Size."

employess is probably higher.) According to the 1981 data of the state's machine industry there were 8 small, 54 medium sized and 104 large enterprises in operation. (See Table 2) If we look at similar data of some Western European countries for comparison, we see that the number of Hungary's large state operated machine industrial enterprises is just about the same (104) as, for example, the total number of large machine industrial enterprises of Austria, Netherlands, and Switzerland together in the 1960s and 1970s (114). Comparing the data about the extent of the lack of small and medium sized enterprises in this country provides at least a surprising picture even at "first glance."<sup>3</sup>

Table 2

Size of the State's Machine Industrial Enterprises as a Function  
of the Number of Physical Employees, at the End of 1981

	Up to and including 100	101- 1000	Over 1000	Total number of enterprises
Machine industry	8	54	104	166
of this:				
machine and mechanical equipment industry	4	18	32	54
transportation equipment industry	-	10	20	30
electric machine and equipment industry	1	6	11	18
communication and vacuum technology industry	1	5	12	18
instrument industry	2	6		22
bulk metal products industry	-	9	15	24

Source: Statistical Yearbook, 1981. Central Statistical Office, Budapest

In the final analysis the phenomenon of "inverted pyramid" indicates that in the Hungarian machine industry as a consequence of centralization and organizational decisions made by the authorities a size structure has been created in which the large enterprises are in the majority and there are very few medium sized and small enterprises. It cannot be sensed from the international comparison by itself that this size structure is distorted, it only shows the deviation from the usual. The fact that distortion is involved can be identified by analyzing the success rate of the economic operation.

<sup>3</sup> In this case, of course, the statistical comparison is suitable only to indicate tendencies and ratios, as the data refer to rather different time points, categories and circles. But the tendencies "scream" so loud that compared to this the statistical errors can only be negligible.

It has often been pointed out and by many people in analyzing the development of the Hungarian industry--and within this the Hungarian machine industry--that organizational overcentralization is the source of numerous undesirable phenomena, and that it hinders growth and the improvement of efficiency. In what follows we will try to introduce a few very damaging consequences of the enterprise size structure which has developed. However, it must be emphasized: We are very clear on the fact that the disproportionate character of the enterprise size structure is only one of the reasons, one of the factors of the economic problems described below. Numerous other reasons also play roles--for example, the level of enterprise management, the insufficient flow of information between enterprises, and mainly, to define it more comprehensively, the concrete system of central economic management, the economic mechanism which--contrary to the accepted principles--still does not provide enough maneuvering space in the competitive branches to allow the market processes and effects to prevail. We are trying here to isolate from the intertwining chain of causes and effects only the interrelationships of a few economic operating problems with the enterprise size structure.

#### Domestic Cooperation and Specialization and the Enterprise Size Structure

In Hungary--similarly to the other countries with centrally planned economies--the concept prevailed in the development and activity of the economy's management after the socialist-type national economy had been established, that central planning must encompass all important questions of the economy's operation, the economic processes must be guided by central foresight, and the market must not be permitted to have an important role in this since the market with its spontaneous effects which give birth to anarchy would hinder the planned character. Later when it was seen that the central planning is unable to live up to the expectation of covering everything, it became gradually accepted that the market has to be given certain room and that the market's forces can also operate in the interest of socialism's goals. Even today the biggest differences in views and arguments among economists of the socialist countries rage about how large the market's role should be in the socialist planned economy, and what should its character be.

This is a fate-deciding question with respect to the growth of socialism, but elaborating on it does not fit into the framework of this study. Let us be satisfied with concluding that important basic position that the market can not be neglected, and instead of forcing it into the background the problems to be solved are developing and controlling it. In our further investigations it is important to also take into consideration that central planning and the market will have to play their respective roles in various ratios in the various spheres and areas of economic operation. This statement is important for us because the machine industry--the subject of our study--due to its character makes it particularly difficult for central planning to span the production process in detail and regulate it with rules (plan instructions). The machine industry is an assembly-type industrial branch. The activities of machine industrial enterprises are distributed in such a way (if we ignore for the moment their service activities) that a part of them make (mostly) component parts and subassemblies, and another part of them (mostly) assemble these. This type

Table 3

Machine Industry Enterprise Size Structures in Some Countries  
(number of enterprises in the various size categories)

Country	Under 100 persons	100 to 1000 persons	Over 100 [sic] persons	Total
Machine industry (total)				
England (1973)	11,800 <sup>b</sup>	3,499	565	15,864 <sup>b</sup>
Austria (1975)	1,580	414	32	2,026
Belgium (1970)	5,520 <sup>d</sup>	388 <sup>c</sup>	120 <sup>c</sup>	6,028 <sup>d</sup>
Denmark (1975)	1,717	213	42	1,972
Holland (1963)	27,743	637	46	28,426
GDR (1975)	1,621	1,013	330	2,964
Italy (1971)	200,003	1,832	132	201,967
Switzerland (1975)	1,343	374	36	1,753
Hungary (1981) <sup>e</sup>	8	54	104	166
Of this: vehicle industry				
England (1973)	1,954 <sup>b</sup>	710	209	2,873 <sup>b</sup>
Austria (1975)	154	47	3	204
Belgium (1970)	420	43 <sup>c</sup>	27 <sup>c</sup>	490
Holland (1963)	14,439	143	15	14,597
Italy (1971)	1,897	214	26	2,137
Switzerland (1975)	99	33	3	135
Hungary (1981) <sup>e</sup>	--	10	20	-- [sic]

a) Concerning Western European countries: establishment data; b) over 10 persons; c) 100-500, or over 500 persons; d) over 6 persons; e) state enterprises

Note: For more on the justification and limitations of comparison with the establishment data, see Ivan Schweitzer: Enterprise Size, Economic and Legal Book Publishers, 1982 pp 21-33.

Source: national statistical yearbooks.

of production process--the essence of which is that it assumes advanced cooperation between the makers of component parts and subassemblies and their assemblers--makes it particularly important for the enterprises to have direct relationships, make independent decisions and market agreements. On the other hand there are differences even within the machine industry with respect to how well the central programs were able earlier--and even today in the CEMA relationship--cover the details of the production processes. The

more different types of subassembly units are used to produce a finished machine, and the more divergent the characters and technologies of these are, the more difficult it is to organize cooperation centrally, and the greater the need for the several enterprises to cooperate based on market agreements.

With the methods of plan directives in most cases cooperation was not successfully organized even at the cost of great efforts, in spite of the fact that smoothing over the bumps of inter-enterprise relationships placed great burdens on industry's management. In the cases of goals judged to be most important, cooperation was organized on the basis of central development programs which--especially the programs of the early 1960s--faced a number of difficulties and their success rates were not satisfactory in all cases either.<sup>4</sup> Organizational centralization with which--instead of central organization--cooperation can be made an internal matter for the enterprise, seemed to be the obvious direction of solution. For this it was necessary to include production of the component parts and subassembly units needed for production, in the enterprise which assembles the finished machine. This consideration in the machine industry was a significant motivation for combining enterprises even as far back as the great industrial reorganization of 1962-63.

Hungarian word usage used to designate production of the numerous elements, subassembly units and component parts needed for producing products which will find final utilization, as "support" industrial activity. The category can not be defined precisely but in the machine industry it means essentially that production which specialized enterprises used to perform as cooperative partners for the enterprise which produces the finished machine as end product. In Hungary the low level of "support industrial" activity is considered to be a factor which greatly weakens the effectiveness of machine industrial production.<sup>5</sup> In essence this means that there is a low level of cooperation between enterprises. Eliminating the lack of development of "support industrial" activity and cooperation could not be solved by developing the enterprises designated centrally for this purpose. The "support industrial" enterprises did not live up to the hopes attached to them--we will later return to the necessity of this--therefore the solution appeared to be to create "support industry within the premises" at the steadily growing machine industrial enterprises which make finished products, by takeovers and investments.

But this is in no way a solution from the efficiency viewpoint. Why it is not that? Mainly because from the viewpoint of developing efficiency it has very great significance that the cooperating producers of component parts and subassembly units be organized into independent enterprises. In the machine

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<sup>4</sup> Compare: Ivan Schweitzer: Central Decisions--Enterprise Efforts. (Machine industrial development programs in the 1960s. GAZDASAG No 1, 1980.

<sup>5</sup> This problem was discussed most thoroughly by Mihaly Laki's study entitled: Development of the "Support" Industry. GAZDASAG No 3, 1980.

industry in a number of cases the most demanding activity is not final assembly but the very production of certain subassemblies. Organizing the production of subassemblies into independent enterprises makes it possible for these enterprises to become specialists in their own fields, to consider the development and competitiveness of their "support industrial" products to be their own cause. In addition to this their production volume may increase on the basis of their independent entry on the market, making it possible to benefit from savings due to size (economies of scale). Their independent entry on the market means serving several customers, developing a circle of clients, and doing so--in case some other conditions also exist--even by crossing the country's borders. With respect to the industry's growth and development of international economic relations the country derives significant benefits from all this, which it does not enjoy in the case of "support industry within the premises."

All this shows that favorable growth of machine industrial cooperation can really come into existence domestically also on the basis of equal relationship of independent enterprises corresponding to the market conditions. We must look for the source of cooperative difficulties in the lack and undevelopment of market relationships of enterprises. This in part is a traditional Hungarian (Eastern European) malady: the market's development has never reached a high level in the area. On the other hand negating the market's role, then underestimating it and destroying the market relationships which repeatedly developed between the enterprises, by repeated enterprise reorganizations did not make development possible in this area. It is again beyond the limitations of this study but worth stating that achieving market development and fostering multifaceted relationships between the enterprises is one of the key questions of the Hungarian economy's future.<sup>6</sup>

The distorted enterprise size structure, the "inverted pyramid" very strongly hindered the development of market conditions and the establishment of cooperative relations among independent enterprises. The existence of specialized producers of subassemblies and component parts and of the final assemblers presumes a broad scale of the enterprise size structure in which there are a sufficient number of small and medium sized enterprises. It is not necessary for the "suppliers" of component parts and subassemblies to be the small enterprises--this is a very common misconception in the Hungarian trade press--as in a number of cases the large enterprise produces the subassemblies and the final assembly enterprise makes specialized end products from the subassemblies. But that much is certain that significantly more small and medium sized enterprises than we now have are needed in order to create the favorable cooperative conditions. Under the circumstances which developed in the Hungarian machine industry the value of small and medium enterprises increased--for the very reason of their small numbers. The products of those manufacturing areas which can be organized most efficiently in small and medium enterprises, very often became shortage items on the domestic market because they could not find producers. Thus the existing

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<sup>6</sup> In interpreting the market relationships I am relying on one of the studies in [the article of] Kamilla Lanyi: "Enterprises, Markets, Competitive Situation" which was published in KULGAZDASAG No 10, 1979.

small enterprises were able to pick and choose in setting up to produce the products that could be produced with the biggest advantage for them, and for the most part they did not accept--or accepted reluctantly--to be simply "suppliers" to a large enterprise. Thus the distorted enterprise size structure on the one hand caused a broad circle of shortage products, and on the other hand hindered the development of the enterprise relationships, cooperation, and the market. The path of solution is to increase the number of enterprises and create independent specialists.

#### Behavior of Hungarian Machine Industrial Enterprises in Foreign Trade Relationships

Hungary--even though it is not among the smallest ones in Europe--is considered a small country in worldwide respects and the Hungarian people--including the economists--justly attribute great significance to this. The effect of the country's size is not negligible in the machine industry either. Satisfying the machinery needs which fill a key role in the economic development of a small country requires openness, significant international economic relations, and foreign trade in machinery. That fact by itself that the desire (demand) for machinery in a small country is broader and encompasses a greater circle of products (is more diversified) than can be efficiently produced domestically, makes it necessary to import machine industrial products from abroad (not only finished machines but also sub-assemblies and component parts since from the viewpoint of the existence of production capacities these are not different from the finished machines) in order to prevent shortages and satisfy the demand. On the other hand in production the length of production runs that can be called efficient can be achieved in a significant circle of products only if there is also export (this again is valid for the complete machines as well as for the spare parts and subassemblies). By expanding international relationships the efficiency can be significantly increased and it becomes possible for the producers to become specialists even in international respects and for their competitiveness to increase.

These effects and requirements in Hungary's machine industry prevailed to a rather small extent in the last one-third century. Besides a number of factors one of the important reasons for this is that the Hungarian machine industry's production is significantly influenced--divided in a unique way--by the threefold market nature of its sales: The domestic market, capitalist world market and the market of the socialist countries make widely different demands on the enterprises. This difference to a certain degree manifests itself in the different product structure. It is also there to a certain extent--though to a lesser and lesser degree--in the fact that the abilities of the three markets to tolerate quality, technological level, and reliability differ from each other. With respect to the behavior of the enterprises still the most important difference is not in these but in that the three markets call for and make possible differing behaviors.

Domestically--as we have seen--basically the behavior of enterprises can be characterized as monopolistic behavior. This is related to the overconcentrated enterprise size structure and establishment of artificially (by



authoritative measures) combined large enterprises which placed into monopoly positions the large enterprises as well as the remaining (few) small and medium enterprises. Moreover: to this day the effect of it has not completely dissipated that in the 1960s by establishing supply responsibilities and holding responsible for them in the various product circles (profiles), the management organs made this monopoly situation the basic principle of the economic operating system.<sup>7</sup>

What was the situation on the foreign markets? As far back as the early 1960s the development of the Hungarian machine industry very strongly worked on increasing participation in the international sharing of labor and on taking advantage of the benefits of specialization. At this time the major portion of the efforts was related in this area to participation in specialization among the CEMA countries.

Trade between the CEMA countries is based on government level plan coordination. During the course of harmonizing the plans they determine--in advance for 5 year plan time periods in advance, and then again from year to year--the detailed and to a very large extent the natural contingencies of the products which will participate in foreign trade, which are considered not as simple guide numbers but agreements ("mandatory" contingencies). In the machine industry's relationship these plan coordinations are related in part to the specialization agreements which also are entered into at the governmental level.

During the time period which to a large extent also determined today's international sharing of labor in CEMA, in the early 1960s the machine industrial specialization activity increased and the number of agreements rose. Even though most specialization agreements did not become reality in their original form, yet their significance is important because they identified quite a few directions which even today are in effect in the production and trade structures. Among others, one such is the public highway vehicle program which after several modifications finally became a reality in the production of IKARUS buses which are very important for the country's foreign trade.

It is definitive in the relations with the CEMA countries that it is not an enterprise facing another enterprise: the relations are of governmental level. At the negotiations the central economic policy goals are inseparably intertwined with the own endeavors of the affected enterprises accepted by the governmental organs. When a central development program is created based on a specialization agreement, its main role will be played by a base enterprise. The enterprises together with the government organs (mostly with the branch ministry) participate in developing the program's implementation and plan, in planning the necessary investments, and in obtaining approval for the investment cost budgets. In the central development plans--endeavoring for the advantages of specialization--often the creation of CEMA cooperation is considered. It is general knowledge that in building the international

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<sup>7</sup> Compare with: Ivan Schweitzer: Some Correlations of the Enterprise Organization and the Economic Mechanism. KOZGAZDASAGI SZEMLE Nos 7-8, 1981

cooperation related to the bus program, Hungary performed an exemplary and encouraging activity for the entire CEMA.

The plans projected that we will import fuel injection pumps, drive shafts, servo pumps, mechanical transmissions, slide bearings, front suspensions, hydromechanical transmissions, telescopic shock absorbers and other components from the Soviet Union, Poland and Yugoslavia. According to the plans the cooperation is mutual: we export engine block castings, pistons, rear assemblies, generators, power steering and engines to the Soviet Union, Poland, the GDR and Yugoslavia. Only part of the plans became reality and even the existing cooperative projects are not free of problems, yet in the final analysis this experiment must be qualified as successful and of outstanding significance.

In this system of machine industrial relations among the CEMA countries--as has been pointed out by several authors in the trade literature--the biggest problem is that the enterprises do not sufficiently sense the risk in the transactions and also that their responsibility does not sufficiently prevail.

The machine industrial agreements among the CEMA countries--dealing with the trade of goods as well as with cooperation--mean obligation on the part of the government. The developments connected with these (central development programs and other investments) and even production itself are governmental concerns of primary significance. Emphasis is placed on involving the enterprises--as we have already referred to it--together with other experts even as early as in the stage of working out the agreements. Yet it is unavoidable that in making the decision--and accordingly also in implementation--the responsibility is divided between the government and the enterprises. The enterprises always have the opportunity--by claiming unforeseen circumstances--to bargain for means above that made available by the government. Thus the effect of lack of risk prevails even in spite of the best efforts and intentions of the enterprise managers. This is also supported by the attitude of implementing the plans at any cost, "let it cost whatever it will cost."

Resulting from the administratively organized relationships of the several participants adjusting to the continuous change of circumstances is extremely cumbersome--indeed, we can say that it often does not occur, the costs increase, and the investments and production projections are fulfilled behind schedule and only partially. But the most important thing is this: because of all these things together the costs of investment and production exceed the projections, and their efficiencies and satisfaction of the demand can be questioned in numerous cases. The enterprises--they take the blame for this at times--are not the only ones to blame for this. The difficulties--from laying down the foundations for a deal all the way to the usefulness of the product to the consumer--derive from the nature of the matter: From the fact that responsibility for the deals is actually not fully the concern of the enterprises, they--at least apparently--are only executors.

The role of the government and of the enterprises is intertwined in the shaping of trade within CEMA even if the governments carry prime responsibility. The governmental organs must maintain continuous direct contact with

the enterprises and this is no small task. It follows from the nature of the matter that the government builds primarily on the large enterprises when international agreements are negotiated and gives the key role to the major enterprises in organizing the central development programs or the CEMA export of new products. This definitive role of the large enterprises is also supported by the fact that the Soviet Union's huge absorbing market provides gigantic demand for the CEMA countries which even by itself makes it possible to have extremely large production runs of each product in the machine industry. Only the major enterprises can organize the fulfillment of this. In a number of manufacturing branches of the Hungarian machine industry very large capacities have been built with large scale investments on this demand, and naturally these were organized in the large enterprises. It is noteworthy, however, that this large volume production built on contingencies coordinated in advance, was often achieved (if they were implemented at all) by the preferred large enterprises with very many problems. In contrast with this certain smaller and less significant developments not so much in the center of attention, which were based on more relaxed value contingencies and which were implemented by smaller enterprises (mostly large cooperatives) relying on their own selves, were more successful.

The foregoing critical approach to the central development programs does not mean that we would reject application of this economic management method. The outlined characteristics of past practice of the machine industry's central development programs (first of all the sharing of responsibility and of acceptance of risk) (all the way to its disappearance) and the inflexibility and omission of conforming to the change of circumstances as time goes on in the planning and implementation processes--merely suggest the question of whether this economic management method should not just be used in the most justified cases, in case of obviously predictable failure of applying the tools to regulate the market. In our opinion in a significant portion of the machine industry the independent enterprise decisions--even if influenced by the regulators--make it possible to have solutions for the economic development tasks which more effective and better conform to the circumstances when in some cases they are also coupled with state support. But--in parallel--the development of market conditions is also necessary for this, for which indispensable conditions are the correction of enterprise structure and also a certain amount of modification of the distorted size structure.

Behavior by the machine industrial enterprises suitable for the markets of the capitalist countries, the third member of the three large market groups (domestic, socialist and capitalist) also poses unique problems. The problems also have an important historical projection: the socialist countries, including Hungary, recognized the significance of relationship with the capitalist markets in the third place also in terms of time--after the domestic and socialist markets. The beginning of this process can be placed to the mid-1960s. In Hungary "export orientation" because at this time the economic policy's password defined in contrast with the earlier autarkic tendencies and the general guideline of replacing imports, and was to a large extent aimed at developing production in a direction of becoming increasingly competitive also on the markets of the capitalist countries in terms of product structure as well as quality.

It can not be stated even about the time of good economic period of the 1960s that the Hungarian industry could show good results in the implementation of this goal. And the effect of the crisis phenomena developed in the 1970s in the world economy clearly indicates that those changes in production structure and quality level which would result in solid positions on the world market, did not materialize in Hungary in spite of the announced efforts and defined goals.

The reality we can say that this process--the process of adjusting to the capitalist market conditions--did not really even begin in the Hungarian industry and within this in the machine industry. Those far from negligible results which we succeeded to achieve with the capitalist countries in the machine industry's cooperative relationships and in the export of certain machine industrial products are isolated and can not be considered parts of an expanding, successful and efficient process on the upswing.

There are a number of reasons for this. Even if we take the intention of relations with the capitalist countries and entry on the world economic market to be unambiguous, the intention is insufficient. I would like to point it out in what follows that those methods which would prepare the industrial enterprises to stand their ground on the world market, have not developed in the Hungarian economy and have not won application. More precisely: the medium in which the Hungarian industrial enterprises move had been shaped for the system of conditions of domestic sales and sales in socialist relations, and the behavior of the Hungarian enterprises shows a high degree of acclimatization to this medium. At the general level this means conforming to the central initiatives and expectations, monopolistic behavior deriving from the shortage situations, being comfortable in ignoring the changes, lack of flexibility, and insufficient interest in the enterprise's financial results and profitability. In the background of this stands the responsibility for implemented actions being shared with the central authorities, and the opportunity of negotiating over the costs and results which comes to exist because of this. Of course, this is generalized and also exaggerated. The majority of enterprises tries to operate maximally, decently, and successfully--inasmuch as this does not conflict with its own interests--even in the midst of shortage situations, the monopoly position, the at times contradictory expectations of the central organs and the negotiating opportunities connected with this, in order to follow the "national economy's interests" to use the usual terminology. And in today's economic situation strengthening competitiveness on the capitalist market is "in the interest of the national economy"--this is obvious also from the central statements.

But we come back again to the question of "how." Let us look more closely--without need of completeness--at which are those unfavorable habits of the Hungarian enterprise behavior which will have to be replaced by new types of reactions to gain success in the capitalist market relationships.

Let us take first a smaller but not negligible characteristic: in the past the Hungarian enterprises--industrial as well as foreign trade enterprises--have gotten used to the huge business deals which occur relatively infrequently

in worldwide machine trades. This results--as we have referred to this--from the quite unusual opportunities of the socialist market in this area. The production structure (product structure) built on the opportunities of socialist markets--and in our opinion this is valid also in the machine industry--is rather concentrated, and the export structure is even more strongly so.

In connection with this statement it is unavoidable to take a side trip since the opinion contrary to this is generally widely spread, and numerous people mainly in industrial circles would consider further product concentration necessary. There is no doubt that concentrated product structure is very advantageous for the producer. But the market and demand conditions can not be left out of consideration. In our opinion in order to find favorable opportunities on the capitalist market a significantly more multifaceted and diversified product and product group structure would be needed. From what does the general feeling derive in industrial circles in Hungary that the Hungarian enterprises--for example, the machine industrial enterprises--are producing too many products? In contrast with this can a more diversified product structure which we judge desirable, be implemented at all?

The answer to these questions is related closely, among other things, with the set of problems of enterprise organization and enterprise size structure which we have examined. What are we dealing with? The enterprise sphere with its small numbers and composed excessively of large enterprises feels that the circle of products it has to produce on the basis of its supply obligations is too wide, because the number of products each enterprise must produce is excessively concentrated. A machine industrial organization composed of more enterprises, in which bigger and smaller enterprises would be active in a distribution better suited to their tasks would be far from feeling that this same product selection (spectrum) is excessive. (Another aspect of the matter is that the country's machine import also cannot sufficiently relieve the burden of the machine industry the capacity of which in the final analysis, partly as the result of the country's size, can not be so great as to produce by itself the overwhelming majority of the broad selection of machinery needed in the country. In addition to the volume of the machine import being relatively smaller than that of the majority of countries of similar size, has a very strongly concentrated product selection.)

Another problem, also not the most significant one, but one which strongly interferes with the relationships with capitalist customers is the custom which has developed in the machine industry and machine trade that the Hungarian enterprises treat as burden the natural services which accompany machinery sales (supply of brochures, proper delivery, start up, spare parts supply, etc). On the domestic shortage markets and in CEMA sales negotiated by mandatory central contracts they have not gotten used to considering the implementation of these on the proper level to be in their interest. But these are elementary standards in capitalist relations. Since this article emphasizes the interrelations connected with enterprise size structure, let us refer to the fact that the nonfulfillment of these requirements is also related to the lack of small specialist service enterprises--while not forgetting that in this case a question not primarily involving enterprise size is involved.

Finally let us speak about a more comprehensive problem of standing one's ground on the capitalist markets. Competitiveness on the capitalist market presumes more efficient production, lower cost levels, better quality products and more flexible reaction to the markets. In the domestic shortage situation and in the system of CEMA relations based on central product contingencies where price and profitability break away from the costs and the products can be sold without change for a very long time, the enterprises are not forced to holding down cost levels, satisfying demands for high technological and quality requirements, and the constant and flexible development of products. It is fundamental that change in this area can be achieved by developing the domestic market and strengthening the role of market mechanisms in relationships among the CEMA countries. Besides this space must be given to a significantly greater extent than at the present time to the positive effects on the world market's demands by increasing the economy's openness. And it is a part of our more closely interpreted topic that increasing the number of specialist machine industrial enterprises would greatly help in better adjusting to the world market requirements and would also promote the development of domestic market conditions.

As far as this latter is concerned we have to declare that the important matter of establishing "small enterprises" (private enterprises, small cooperatives, etc.) which has gained prominence in the last year or two, cannot be fully identified with the necessary correction of the enterprise size structure. In the development of cooperative relationships of machine industrial specialist enterprises based on making independent decisions the significant growth in the numbers of small enterprises of 10-100 people and medium ones with 100-1000 people, well equipped and operating at high technological levels is also indispensable, and this is unimaginable by merely increasing employment at the "small enterprises"--or with the new word usage, the "auxiliary economic operations." With all certainty in the future also it will be necessary to make independent the loosely connected factories and plant sites of some large enterprises.

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## INDUSTRIAL COOPERATION WITH GDR DESCRIBED

Budapest FIGYELO in Hungarian No 12, 22 Mar 84 p 12

[Text] In the 1970s during an intensive phase of development in trade relations between Hungary and the GDR modern forms of collaboration appeared: cooperation and specialization agreements. Most of the seventy cooperation and specialization contracts between the two countries' enterprises were already established in the early 1970s. On the basis of such agreements a high percentage of commodity trade is primarily taken by a few products or groups of products shipped in large quantities (buses, trucks, agricultural machinery, cellulose and exchanges to broaden the assortment of paper products).

In 1983 in trade worth around 1.6 billion rubles the share of specialized products or products produced in cooperation was about 40 percent of Hungarian industrial exports and about 30 percent of the shipments of the GDR. According to a 1982 accounting the percentage of products divided by commodity group was as follows: 50 percent in machinery exports, 56 percent in chemical industry exports, 32 percent in light industrial exports. In the exports of the GDR these percentages were 40 percent, 8 percent and 17 percent, respectively.

## Motor Vehicles and Agricultural Machinery

The most all-encompassing cooperation has developed in motor vehicle production; it is also here that the division of labor has the longest traditions. The GDR stopped the production of buses longer than 8.5 meters and the entire demand is filled by Hungary. The GDR delivers assemblies (engines, front and rear axles, power transmission units) for the company buses jointly developed by Ikarus and the IFA truck factory. The GDR specializes in 5 and 6 ton diesel trucks and from these satisfies Hungarian demand, which was 4600 vehicles in 1983. Significant division of labor also took place in the production of motor vehicle assemblies: the GDR produces cardon shafts, steering columns and driverseats. Concerning future prospects: This product group remains the area representing the greatest expanse for the division of labor. Because of changed public transport policies the GDR will likely purchase fewer buses than the 1190 it has purchased up until now, and it will be possible to substitute trolley buses for only part of the decline in volume. Cooperation can be broadened, however, in the specialized production of motor vehicle assemblies.



The second important area for the division of labor in the machine industry is agricultural machinery. The new state cooperation agreement, which is an improved version of the old, expired agreement, was signed a year ago. The GDR is specialized in multi-faceted ways in the production of fodder and grain harvesters. The GDR will cover Hungarian demand with these world class combines (E512 and E516). On the other hand, Hungary produces and ships to the GDR Kertitox machinery for spreading plant protection agents on the basis of the two-sided specialization. Cooperation in agricultural machinery has developed between the enterprises of the Mezőgazdasági Trust and the Fortschritt Combine of the GDR. To great degree the cooperation is contract work in nature, the enterprises of the Mezőgazdasági Trust produce the components and assemblies on the basis of documentation given by the GDR and, in large part, using leased machinery and imported materials. Regular, planned scientific-technical cooperation continues between the enterprises of the two countries for the development of the jointly-produced machinery.

The division of labor has also been developed between enterprises in the two countries in manufacturing machinery for the food industry. Hungary has specialized in the production and shipment of slaughterhouse equipment, the GDR in confectionery, milk and bottling equipment. According to the participants this cooperation can be further expanded. Hungary could specialize in the production and export of pork slaughter lines and the GDR in chocolate manufacturing complexes. In both countries significant savings on imports from capitalist countries could be made by developing and further specializing in the production of packaging and wrapping machinery for the food and pharmaceutical industries.

#### Numerically-Controlled Machine Tools and Robot Technology

The machine-tool industry is one of the branches in which the division of labor first developed. According to the agreement reached in 1971 Hungary specializes in 16 types in two machine groups, the GDR in 34 types in two machine groups. Today on the basis of a multi-faceted agreement both sides export about 50-60 types of machine tools. Scientific-technical cooperation concentrates primarily on improving numerically-controlled machine tools and on the development and application of robot technology. In the case of the latter the GDR has prepared an all-encompassing program for its entire industry.

In the area of electronics cooperation should be lifted to a higher level, because this industrial branch is one of those factors which defines future industrial development. The division of labor is behind the level of the machine industry in electronics. At present only a few two-sided specialization agreements exist. Cooperation in the development and production of computers continues on the basis of the state agreement signed in 1973. In the interest of multi-faceted specialized production the GDR delivers R-40-type computers and buys peripheral equipment, besides machines from Hungary. In 1983 the interministerial agreement concerning cooperation in microelectronics was born. Programs projected in this agreement include common research, development and specialized production of microelectronic components and on production technology, including raw materials and the

purified chemicals necessary for the production of microelectronic components. Among the tasks of cooperation in electronics belongs, apart from the multifaceted specialization agreements, the better exploitation of the advantages stemming from the two-sided division of labor.

In the future cooperation in the production of medical equipment may be a very important area. This branch of industry is quite well-developed in both countries. Cooperation has come about in a few fields, but the opportunities are still far from being fully exploited. The elimination of parallel production and development would signify an advance and a good possibility would open up for jointly entering third markets with complete medical complexes by jointly filling out the other's palette of products.

#### Continuing Cooperation

In the chemical industry successful cooperation has continued between the two countries' pharmaceutical firms for a long period of time. In order to be able to better exploit its capacity for the production of polyvinyl chloride the Borsodi Chemical Combine signed a five year agreement with the Buna Works: On the basis of this contract the German factory delivers 20,000 tons of vinylchloride monomers in exchange for 12,000 tons of polyvinyl chloride in suspension. One could spend a long time detailing the production branches in which both countries' enterprises are interested in long-term cooperation or specialization: among these are the electrotechnical industry, light industry, iron and steel, material transport equipment production, durable consumer goods, etc.

The economic policy of the GDR in the future will aim at raising quality (the application of technology, automatization, conservation of materials and energy, etc.). The need for greater efficiency results in narrowing the number of products which leads to the intensification of the division of labor, in which the GDR perceives Hungary as a good partner. The cooperation and specialization already developed in various fields can be expected to continue. It satisfies both countries' interests. In numerous fields there are possibilities for deepening the division of labor. The percentage of products made in cooperation or through specialization can be expected to continue to increase in trade, which will strengthen the security of production and supply in both countries.

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## HUNGARIAN-YUGOSLAV ECONOMIC RELATIONS DESCRIBED

Budapest FIGYELO in Hungarian No 10, 8 Mar 84 p 12

[Article by Andras Varga: "Our Expanding Economic Relations With Yugoslavia"]

[Test] The Winter Olympic Games at Sarajevo--as expected--did not yield many laurels to the Hungarian athletes. All the more successful was the participation of Hungarian enterprises in the economic projections of the Olympics. For example those who traveled by train from Belgrade to the theatre of these sporting events could use one of the luxury trains delivered jointly by the Ganz Electric Works and the Ganz-MAVAG (Hungarian State Iron, Steel and Machine Factories). As part of the contract we also delivered the non-assembled component parts of a fifth set of carriages to Yugoslavia. Or another example: A gas installation program, that was planned long ago, was implemented just before the Olympics. The gas equipments of our FEG (Firearm and Gas Equipment Factory) were delivered by NIKEX (Foreign Trade Enterprise for Heavy Industry Products) to the capital of Bosnia-Herzegovina in the framework of the Hungarian-Yugoslav gas equipment cooperation which has a validity of 10 years.

### Cooperation Among Branches

The successful participation of Hungarian enterprises in the Winter Olympics maybe considered as characteristic for the general situation, development and perspectives of Hungarian-Yugoslav economic relations. In the non-ruble sector of our homeland's foreign trade Yugoslavia takes usually the third or fourth place. Commerce between the two countries has been growing despite the difficult world economic situation. Last year the value of our exports to Yugoslavia amounted, according to the statistics of the Hungarian Ministry of Foreign Trade, to \$296.1 million, and our imports reached \$286.6 million. The total volume of trade exceeded the provisions set forth in the bilateral trade protocols by 2 percent and the 1982 volume by 4 percent. For this year the protocols signed on 1 December 1983, which is valid for one year, earmarked an even greater increase in trade. According to this document the total volume of trade will grow by 5 percent to \$608 million and shall be balanced.

In the successful evolution of Hungarian-Yugoslav trade--which contracts with the general trend on the world market--the awareness that new elements must be brought into the economic relations, notably long-term

cooperation and direct contact between enterprises, has played a decisive role. In the framework of long-term cooperation between economic branches each of the two countries relies, within specific sectors and in the production of certain goods, almost entirely on the production capacity of the partner country. This enshrines a certain amount of risk, but the cooperation partners are usually enterprises who know and trust each other.

From the long-term cooperations the one concerning the production of fertilizers should perhaps be emphasized in the first place. In the framework of this cooperation the Hungarian partner Chemolimpex and the Yugoslav RTB Bor, together with the combinat of Prahovo, agreed that the Hungarian foreign trade company in question will ship over a period of 20 years primarily nitrogeneous raw materials for fertilizers, against which it will buy yearly 100,000 tons of phosphor fertilizers. An expansion of this cooperation is on the agenda, and when the so-called Prahovo-II program materializes, virtually the bulk of the entire Hungarian phosphor fertilizer supply will be based on Yugoslavia. For the excess amount of phosphor fertilizers the Hungarian partner will provide plant-protecting materials.

#### Cooperation Between Enterprises

The cellulose-cooperation is also valid for 20 years. In terms of this the Lignimpex ships paper-wood to two Yugoslav enterprises, i.e. the Videm factory at Krsko (Slovenia) and the Matroz factory at Sremska Mitrovica (in the Voivodship), who then provide cellulose for Hungary. The contract is also made for 20 years and like the one mentioned above it projects an exchange of goods for a value of \$500 million over the period in question. Moreover Yugoslav enterprises are coking coal in paid work for Hungary, in view of the limited Hungarian coking capacity. The coal coked in Yugoslavia covers an important part of our domestic needs. The Hungarian partners are paying with goods for a significant part of the work done.

The classic industrial cooperations, which in the Hungarian-Yugoslav relations emerged primarily in machine industry, are balanced out. From these the largest is the truck-cooperation that the Raba Hungarian Carriage and Machine Factory carries into practice. This factory, located at Gyor, ships self-moving truck chassis to Yugoslavia and imports from there various kinds of component parts, alloys, cylinder thimbles and productive vehicle spare parts. The value of the shipments reaches on each side 30-35 million dollars per year. There is also another vehicle industrial cooperation in the Hungarian-Yugoslav relations, that in Hungarian opinion maybe developed, i.e. the Zastava cooperation in which we receive complete passenger cars against Hungarian-made ignition switches, electric bulbs, toolkits, alloys, window-washers and other component parts of a car. (This year the Yugoslav partner is expected to deliver 2,900 Zastava automobiles in the framework of this cooperation).

Yugoslavia became Hungary's most important computer market in convertible currency, predominantly in the framework of cooperative and other trade agreements. Hungary exports both hardware and software. Moreover Hungarian enterprises are training Yugoslav technicians and provide a quick and smooth service on the instruments exported. This export is particularly valuable for us since the world's largest computer manufacturers are also represented in Yugoslavia. The Yugoslav customers are shipping us various products, mainly electric component parts and cables as an equivalent for our exports.

Hungary exports machine-tools to Yugoslavia in the framework of another cooperation for a value of \$2.5-3 million. However in this deal it is not the value of the goods exchanged which is important but the pattern of production distribution. We are importing from Yugoslavia such traditional machine-tools that Hungarian industry ceased to manufacture, while we found a market in Yugoslavia for Hungarian-made NC/numeric control/ machine-tools.

Hungarian-Yugoslav economic relations also embrace other areas as: border area trade, tourism and transit-transportation. The prime task of the border area trade is to intensify cooperation among enterprises on both sides of the border. The Hungarian partners are shipping milk, frozen pig-heads, and cement in this sector of cooperation. On the Yugoslav side there are other building materials (for example brick and tile), further doors, windows, textiles, leather shoes and furniture on the list of goods to be exported. Efforts have been made on the Hungarian side to expand the bilateral ties in the furniture industry into a cooperative venture, i.e. that Hungarian enterprises would make the finishing touches on the front-side of Yugoslav furniture. There is a general striving in the border area trade toward cooperation and that the population in those areas should really benefit from that trade.

#### Transit Traffic

Although tourism declined during the last two years in both directions--mainly because of financial measures and the increase in prices--both sides are looking for expeditive solutions. The development of organized tourism seems to offer the best possibility for this.

Transit traffic is very significant in the relations of these two countries. For Yugoslavia the road to the Soviet Union and the northern countries leads through Hungary. On the other hand Hungary uses frequently the services of Yugoslav harbors (in first place Rijeka, Koper and Kardeljevo--the former Ploce). The motor-train shipment mentioned in the introduction was also the result of an agreement in terms of which the Hungarian enterprises engaged themselves to increase their use of the port of Kardeljevo.

A new area of bilateral cooperation may become the Hungarian participation in World Bank tenders in Yugoslavia. That this is a realistic possibility was shown by the fact that the first winning of such a tender by a Hungarian enterprise was connected with Yugoslavia: The Hungarian Ship and Crane Factory can ship two portal-cranes for a value of \$1.8 million for the harbor of Bari.

12312

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POLL TESTS IMPACT OF DECENTRALIZED MANAGEMENT TOOLS IN INDUSTRY

Warsaw ZYCIE GOSPODARCZE in Polish No 6, 5 Feb 84 p 10

[Article by Marek Zytniewski: "Third Survey by National Economic Institute; Enterprise and the Budget"]

[Text] Following the introduction of economic reform, the significance of economic-financial mechanisms in the development and course of economic processes has been magnified. Depending on the selection of ways and means of conducting economic policy, hard and soft financing can be mentioned. It is possible to test the strength of these limitations by taking into account the following criteria: taxation, grants and subsidies, the credit system, financing asset growth, supplies and the activities of research and development as well as prices and price setting. The first two criteria mentioned are encountered in the settlement of enterprise accounts with the budget and other levels of administration. The next two are to be found within the framework of relations with the bank. In this article I will present the settlement of enterprise accounts with the budget and median levels of administration.

In the research survey\* during the first half of 1983 as compared with the corresponding 1982 period, average profitability compared with processing costs fell from 55.9 percent to 47 percent, and average profitability compared with total cost from 19.4 percent to 16.4 percent. Total taxation and financial obligations for the first half of 1983 surpassed 1982 amounts by some 50 percentage points. However, at the same time, the amount of taxes and financial obligations have decreased in sales as well as net production of the enterprises under study. However, this did not exert any influence on improving their financial status, inasmuch as financial results, net production and income after taxes per working person were less than corresponding amounts of last year.

Turnover Tax

Turnover tax did not include production of half of the enterprises in the research survey at all, in two it included total production and in the remaining enterprises only a portion of it.

Changes in the area of applying turnover tax in 1982 and in the first half of 1983 took place in six enterprises: an increase in the area of production covered by turnover taxation occurred in two enterprises of the machinery industry, and in one of the metal industries; there was a decrease in the textile and leather goods enterprises; in the chemical enterprise this amount changed positively and negatively from quarter to quarter.

Turnover tax was collected from products sold according to all sorts of prices. Tax on products sold at official prices bore a uniform 10 percent rate, whereas rates on products sold at negotiated and regulated prices were conflicting and there appeared to be no relevance between the nature of the price and the extent of the rate. The highest tax turnover rate amounted to 75.4 percent and was imposed on the production of safety razor blades (regulated price). Services were subject to the lowest rate, 5 percent (negotiated prices). Generally, the level of turnover tax rates for products sold at regulated prices was somewhat higher than for products disposed of at negotiated prices.

Changes in tax rates in 1982 and 1983 included 7 enterprises and affected 15 articles, of which 4 were sold at regulated prices, whereas the remainder was sold at negotiated prices. Rate changes--with two exceptions--occurred in two stages.

The first took place during the 1982-1983 year-end period and affected five enterprises and seven articles. In the case of two products, the application of turnover tax was eliminated (cisterns--negotiated prices, knitted goods for children and young people--regulated prices). The tax rate was reduced from 35 percent to 20 percent on underwear and clothing for adults sold at negotiated prices. In the remaining instances, a rate increase took place: on hosiery good to 35 percent (regulated prices), on terrycloth products to 50 percent (regulated prices), on safety razor blades to 70 percent (regulated prices), on wine to 65 percent (negotiated prices), as well as on shoes with leather soles to 30 percent.

The second phase of turnover tax rate changes occurred in mid-1983. In the research survey, these changes appeared in two enterprises for goods sold at negotiated prices. The tax rate was increased on ladies' fur-lined boots from 10 to 30 percent, and the rates on six groups of chocolate products were reduced (for example, on solid chocolate from 60 to 39 percent, on filled chocolate from 53 to 30 percent).

In a majority of enterprises, increased tax rates were accompanied by an escalation in prices, and a decrease in or exemption from taxes--but their reduction is not directly proportional. In only two cases did rate changes fail to influence prices in general. In the enterprise producing safety razor blades in which, despite a rate increase, the profitability of the article did not fall beneath the norm, and in the case of chocolate products where a reduction in the tax rate on finished products was accompanied by the introduction of a quota turnover tax on cocoa beans (350,000 zlotys per ton).



## Subsidies and Premiums

In the first half of 1983, compared with 1982, the participation of objective subsidies in the total amount of subsidies and premiums declined from 20 to 17 percent. In 1982, objective subsidies occurred in 10 enterprises in the research survey, namely: in 5 enterprises of the food industry, 2 in the leather goods industry and in 3 smelting works. Construction, in spite of a radical decrease in investments, did not avail itself of any subsidies or premiums, although for many years it had been a consumer of them. This attests to the nature of price rises in construction and the concealment in them of the inefficiency of the entire trade.

In 1983 the scope in which objective subsidies were used was reduced by two food industry enterprises which are included in the sugar industry branch and sell their products at negotiated prices. Official and regulated price subsidies were granted not only to enterprises showing a net loss, but also to those which themselves covered losses sustained on certain products, and that with an increase in profits on others.

In the smelting works quota subsidies granted by the Ministry of Finance are employed following a confirmation of prices calculated by the District Office of Prices. The amount of subsidy is a by-product of the difference between the sales price and the retail price of a given product. Subsidies were paid from the central turnover account according to the nature of the subsidized product and the relationship of the smelting works with central offices.

A uniform percentage rate of subsidy was extended to the production of shoes for children and young people. In a decision of the Ministry of Finance granting a subsidy rate, it was fixed as a triple surcharge on profit. Because of the fact that shoes for children and young people are sold at regulated prices, with a 10 percent surcharge on profits, the subsidy rate amounts to 30 percent.

Subsidies for the food industry are more complex because of the diversity of branches. In the research survey, from among enterprises of this industry, one grain-milling enterprise and two meat industry enterprises received subsidies.

All production in the grain-milling enterprise was subsidized. The rate of subsidy to July 1983 was made retroactive in monthly periods, i.e., it was calculated after the close of sales during the month, verified and paid during the course of the following month. Effective July 1983, the Ministry of Finance adopted a decision to allot the enterprise a monthly advance amounting to one-twelfth of the scheduled subsidy. Calculation of the rate of subsidy depends on determining the percentage relation of its own production costs increased by a 3.5-percent profit surcharge on the official price of a given article. The association handles negotiations in the subsidy department and modifies the rate of subsidy for enterprises, and determines the profit surcharge of sales prices for them.

A special form of objective subsidies occurs in the meat industry; the subsidy is not applied to the product, but to the basic raw material, that is, it de

facto covers the differences in procurement prices. Negotiations regarding subsidies are conducted by the association and the Department of Finances of the Ministry of Agriculture and the Food Economy [MRIGZ] and the Ministry of Finance. The association maintains funding for subsidies.

In the research survey, changes took place in subsidy rates. In Metallurgy, subsidy rates, being differential rates, are subject to change with changes in sales prices and the retail prices of subsidized goods. During the survey period, no significant changes were detected in the rates of those subsidies.

In the leather goods industry, during the fourth quarter of 1982, the subsidy rate for children's shoes amounted to 50 percent, whereas for young people's shoes, it fluctuated according to estimates from 30 percent to 50 percent, and in 1983 was placed on a 30 percent level.

In the grain-milling industry in 1983 a general upsurge in subsidy rates occurred, although the rates for some certain varieties were slightly reduced.

In the meat products industry in 1982 and 1983, an increase in subsidies likewise took place. Rate changes followed every change in the sales price. However, if price differentials accompanying a change in sales prices since July 1983 were covered completely.

And consequently, in 1982 and the first half of 1983 we had to contend with reducing subsidy rates for industries producing investment goods and durable goods, as well as an increase in subsidy rates for the food industry. Nevertheless, in all enterprises the amount of objective subsidies in sales during the first half of 1983 was less than in 1982. The amount of these subsidies in profit was increased only in two enterprises (in the smelting works and the leather goods industry enterprise), which was due to decreased profits in those enterprises.

The amount of subjective subsidies in the sum total of subsidies and premiums was reduced to 62 percent from 67 percent in the first half of 1983 in comparison with 1982. In the research survey, only four out of five smelting works researched benefited from subjective subsidies in 1982. In 1983 this sphere was reduced by one-half. The amount of subjective subsidies in sales shrank in both subsidized smelting works, and in the first half of 1983 it amounted to 502 percent, and in the other, 20,845.2 percent.

In 1982, seven enterprises availed themselves of premiums by virtue of foreign trade: two each from the precision and textile industries, and one each from the machinery, electronics and meat products industries. In 1983 this group was reduced by two enterprises (the textile and meat products industries), whereas it was increased by representation of the metal and sugar industries. The amount of premiums via foreign trade in the sum total of subsidies and premiums in the first half of 1983 as compared with 1982 increased from 3 to 13 percent. The amount of premiums from this source rose in sales as well as in profits in all enterprises receiving those premiums. The amount of premiums in sales during the first half of 1983 fluctuated between .19 percent in the sugar enterprise and 2.4 percent in the precision enterprise, and in profits in these very same enterprises between .84 percent and 12.3 percent.

## Taxation

If one considers taxes and assessments figured in the cost of operations of enterprises (real estate tax, wage tax, Social Security Agency [ZUS] contributions, allowance for centralized funding of technological-economic progress), then one change has occurred in 1983 as compared with 1982: the rate of contributions to ZUS has been raised from 33 to 43 percent of the wage fund. Together with wage taxes (20 percent), the wage fund assessment amounts to 63 percent. This enormous amount increased the cost of operations, which is reflected in the prices of manufactured goods and serves to reduce the profitability of enterprises. On the one hand, replenishment of the budget is improved as a result of the increased contributions, but on the other its revenues are reduced because of income taxes.

In 1983, in comparison with 1982, income tax progression was alleviated by raising the minimum tax rate by 90 percent, from 30 to 50 percent of profitability. In the research study, 18 enterprises benefited from this relief. The most numerous groups of enterprises not included in the alleviation of the progression of this tax are: eight construction enterprises, seven textile, five food, two precision.

As of 15 November 1982, the Council of Ministers decreed an increase in the tax base of 1983 income taxes reflecting unsubstantiated costs and losses. In 32 enterprises of the research survey, unsubstantiated costs and losses were so enormous that they affected the amount of taxes, with one exception. In one of the smelting works, the tax base rose by 420.5 percent, and yet this had no effect on the amount of taxes paid because of its negligible profitability. In another smelting works the tax base rose by 20.2 percent, and the tax itself by 27.18 percent.

In the remaining enterprises an increase in the tax base fluctuated between .02 percent and 4 percent, inasmuch as it did not exceed 1 percent in 20 enterprises, and in 6 it remained between 1-2 percent. The tax increase resulting from an escalated tax base for unsubstantiated costs and losses fluctuated (beyond the above-mentioned instances) between 1 percent and 11 percent; however, it exceeded 2 percent in only four enterprises.

It appears that a blow in the form of the Council of Ministers decree was on target. Therefore, it is worthwhile adding that the predominant position of unsubstantiated costs consisted of repair work and warranty costs representing approximately 80 percent of those costs. This position was shared by 14 enterprises.

However, among the unsubstantiated losses displayed by 16 enterprises, penalties due to withholding and damage to foreign transports and loading equipment were predominant (approximately 56 percent of losses).

In 1982 the enterprises surveyed benefited from income tax on the following grounds: exports and the increase in exports, implementation of specific investments and the status of the defense enterprise. In 1983 the list of rights to reduced rates was expanded by the sale of goods with a quality label (restricted to goods disposed of at official and regulated prices), as well as the running of plant-affiliated schools and boarding schools.

In the research survey more than 80 percent of enterprises benefited from income tax rates. In the first half of 1983 the number of enterprises benefiting from reduced rates declined to 72 percent. In spite of the spreading gamut of rights, the amount of reduced income tax rates likewise declined.

In 1982 as well as in 1983 the basic right to reduce rates was exports. In 1982, of 36 enterprises availing themselves of reduced rates 33 took advantage of reduced rates due to exports. In the first half of 1983, 27 out of 32 enterprises reflecting reduced income tax rates during that period took advantage of export reduced rates.

In 1983, the tax base was modified in the assessment principles for the Vocational Activation Fund [FAZ], simultaneously alleviating progression of assessments in the upper tax bracket from 400 percent to 300 percent, as well as in growth of the wage fund and the payment of amoluments and premiums.

In 1982 the enterprises surveyed availed themselves of exemptions for FAZ by virtue of: increased sales, exports, increased exports, decline in employment as well as the status of the defense enterprise. In the first half of 1982, the number of rights did not change but certain rights to reduced rates did change. The types of reduced rates which were taken advantage of in 1983 consisted of: net increase in sales or production, exports, increased export, a higher stabilizing index, status of defense enterprise.

In 1982, 31 enterprises took advantage of FAZ reduced rates (about 70 percent of the group under study) whereas in mid-1983 only 13 institutions (about 30 percent of the group under study) had done so. In 1982 the prevailing right was the decline in employment: 19 enterprises took advantage of it (including all of the textile and leather goods industries). The amount of reduced rates resulting from this right in the sum total of reduced rates in assessments for the FAZ amounted to approximately 64 percent. The next reduction in terms of significance came about as a consequence of production growth in the second half year as compared with the first half year. Eleven enterprises availed themselves of this reduction (but not a single smelting works or precision industry enterprise.) This reduction amounted to a total of 25 percent. Both rights referred to exhausted practically 90 percent of total reduced rates for FAZ.

In the first half of 1983, the status of the defense enterprise was accountable for the largest share of total reduced rates--practically 47 percent. The remaining sum of reduced rates was dispersed over other rights. It is worth adding that in the majority of bases the sum of reduced rates was many times higher than assessments paid.

Finally the last--for some a tax, for other a quasi-tax, or the allocation of amortization. During the survey period (from 1982 to the first half of 1983) 20 enterprises were seeking exemption from remitting amortization to the budget. In 1982, nine enterprises from this group were completely or partially exempted from the duty to participate: four from the food industry (including two meat products), two each from the machinery and chemical industry as well as one from the furniture industry. Moreover, without effort this obligation was lifted from three enterprises, two of which were exempted from remitting amortization. The remainder, that is, approximately

73 percent of the group surveyed, shared allowances with the budget. In 1983 the list of exemptions was frastically limited to scarcely six enterprises (four food and two defense).

The amount of the exemption varied for various enterprises. In the meat products industry, 100 percent of amortization remained in the enterprises in 1982, as well as in the initial half of 1983. It was similar in one of the sugar enterprises. In the remaining enterprises, the reduction included only a portion of amortization remitted to the budget.

#### How Much Does It Cost To Unionize?

Thirty-seven enterprises belonged to unions, that is to say, more than two-thirds of the group under study. In 1982 the settlement of accounts between unions and enterprises was exclusively unilateral and depended upon certification by enterprises for the union's benefit. In the first half of 1983, the settlement of accounts was already bilateral--payment of wages to enterprises constituted 15.1 percent of remittances to unions.

As for payments to unions in 1982 as well as in 1983, it was a contribution for the maintenance of the union. The amount of this contribution in payment values amounted to 97.8 percent in 1982 and declined by 6.5 points in the first half of 1983 in conjunction with the appearance of a new claim: payments for the joint enterprise's fund.

As is known, the cost of maintaining the union is included in the burden of costs, but beginning with 1985 the maintenance of voluntary unions will be covered by profits in whose allocation many individuals suspect opportunities for the disintegration of artificial and needless endeavors. Therefore, we have studied the ratio of sums laid out for unions to the amount of allocable profit.

It appeared that in 1982 the cost of maintaining the union from profit was small and in only three instances did it exceed the limit by 1 percent. In 1983, four enterprises exceeded this limit, and three additional institutions exceeded the limit by up to 10 percent. Generally, the amount of payments for unions increased, which means that the "needs" of the unions have increased. Keeping in mind this very trend, eternally typical of all bureaucratic endeavors, one should positively evaluate the change introduced at the end of 1983 in the act regarding the financial economy of enterprises. Most likely self-governing units will not be inclined to trim profits for the purpose of allocating them to satisfy the appetites of officials, especially when the advantages flowing from their activities are not very great.

And they are not. However, in the first half of 1983 only five enterprises received financial aid from unions. The machine industry enterprise received a loan for investment purchases; the textile industry--funds to reinforce the development fund; the chemical industry--exporting emoluments; the precision industry--funds for investments pertaining to the production of "S"; the meat products industry--funds for a joint economic venture and premium by virtue of the price equalization system.

## Conclusions

On the basis of the survey it can be stated that in principle the budget applied rigid limits to the area of taxes regulating the initial distribution of enterprise income. The turnover tax in particular was activated. Deviation from uniform taxation recorded in the tax law of 26 February 1982 was handled in stages. The first took place during the turn of 1983, the second in July 1983. As a consequence of these changes there occurred an increase in the scope of rates and a gradual activation of the turnover tax as an instrument of taxation, pricing and market policies.

Limiting objective subsidies, decreasing the amount of those subsidies and decreasing subsidy rates in sales attest to the "toughening" of money-budget restrictions. Anxiety only arouses an upsurge in subsidy rates in the food industry. It provokes fear of a return to the price structures prior to 1 February 1982. The construction of subsidies is, however, the "soft" element in monetary restrictions. For percentage rates do not force costs down but, on the contrary, encourage mismanagement and higher prices.

Soft monetary restrictions are employed, on the other hand, in the area of taxes regulating the second distribution of enterprise income. The area of reduced income tax rates was expanded, "softening" the impact of that tax. These reduced rates are of minimal material significance to enterprises, so their motivational impact is weak. It even happens that they work in the opposite direction from that intended. Reduced rates for labels of quality can be an example. The legislature had in mind the material interests of enterprises in possessing products with this label, and hence the improved quality of manufactured goods. The Ministry of Finance also excluded from this reduction products sold at negotiated prices, thereby motivating the decision that in the process of obtaining a quality label an enterprise can raise the price for such a product and in this manner recoup the cost of improving quality. Automatically enterprises marketing their goods at negotiated prices became disinclined to acquire labels of quality, thereby improving the quality of production; for the reduction is "pure profit" for an enterprise, and an increase in the price of the product is indeed an additional gain, but a net one--from which, "thanks" to progressive taxation, either little or nothing at all, remains in the enterprise to say nothing of the danger of being exposed to the epithet of price "gouger."

However, the budget made an attempt to impose hard monetary-budget restrictions in the income tax area. It consisted of the introduction of the obligation to add unsubstantiated costs and losses to the tax base. Likewise, the attempt at restricting subjective subsidies can be regarded as a step in the direction of harder financing.

The granting of reduced rates in assessments for the FAZ as well as exemption from remitting amortization to the budget had a bargaining-acceptable character, characteristic of soft monetary-budget limitations. In the area of these assessments, the budget did not take any steps in the direction of hard financing.

Ultimately, it is necessary to notice that associations, through the redistribution of funds, "soften" monetary-budget limitations and in this area fulfill a role similar to federations. The inclination to increase the list of union funds for which enterprise money is being accumulated is disturbing, because the accumulation of money for the account of associations means the freezing of enterprise funds and a limitation on their self-financing capabilities.

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\* The research survey among industrial enterprises included the following: eight light industry enterprises; seven machinery and seven chemical enterprises; six food enterprises; five smelting works; three metal industry enterprises; two electronics, two precision and two leather goods enterprises, and one ceramics and one furniture enterprise. Among the building enterprises: three production-service construction and one specialized construction.

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CSO: 2600/633

CC SECRETARY MICHALEK VIEWS FARMING PROBLEMS

AU141549 Warsaw TRYBUNA LUDU in Polish 12 Mar 84 pp 3, 4

[Interview given by PZPR Central Committee Secretary Zbigniew Michalek to Halina Dowda: "Poor Production Should Not Be Profitable"--date and place not given]

[Excerpts]] [Dowda] Discussions among farmers continue to revolve around the charge that farm policy lacks stability. During heated discussions farmers even allege that farming is an uncertain proposition and that old practices are coming back. What would a Central Committee secretary dealing with farming say to that?

[Michalek] That farm policy is stable, that its principles are unchangeable, and that no one will remove a good farmer from his farm.

[Dowda] Is this enough to convince farmers?

[Michalek] No, it is not, but this is the crux of everything we have been doing after the 11th PZPR-ZSL Plenum, after the Ninth Party Congress, and after the adoption of joint directives on farm policy. We try to act in such a way as to consolidate [words indistinct] the model of farming and actually about the lack of a model have again flared up.

[Michalek] Do we really lack a model of farming? It is important how we view such a model. People view it in very many ways, but the thing is that the model of farming under the Polish conditions is different from other models. What matters is that this model is a good one.

At the 11th Plenum we restated the fundamental truths about the worker-peasant alliance. The first truth is that both workers and peasants live by the work of their hands. The second is that they do not exploit anyone. If these two fundamental truths are observed, private farming is no obstacle to the construction of socialism.

[Dowda] Not everyone realizes this.

[Michalek] Some party resolutions and decisions are being put in doubt. If this is done by outside and indifferent people no harm is done, but if this



is what party members really say then it is necessary to remind them that everyone has to obey the resolutions of the Ninth Congress and the 11th Plenum.

In line with the Ninth Congress resolution and with the resolve of farmers, of whom some 200,000 are party members, the Central Committee has come out in favor of the permanence of private family farms. I stress: family farms, because they do not employ hired labor.

We are for a single agriculture, which means that all its sectors are equal, possess the same development potential, and are evaluated in line with the same criteria. We continue to implement those principles in our daily practice.

We speak of a single agriculture on behalf of good farmers. To make it quite clear: This applies to private farms, state farms, and producer cooperatives.

[Dowda] Are good farmers and good state and cooperative farms agricultural models or slogans?

[Michalek] We are not against changes in the structure of farming. Various concepts are being put forward. There is a concept that provides for increasing each farm by several hectares if times get harder and if technical equipment allows for such increases. Discussions continue about general and specialized farms. Much is being said and written about farming, but what is actually happening in it?

The young people are staying in their villages. For the first time in many years the number of rural people of the most efficient ages has increased. Demographical changes will help improve the structure of private farming. The size of farms is also going up. Farm policy must favor such processes--must favor them more than ever.

The party has not given up its efforts to promote cooperative farming, but producer cooperatives will be voluntary units. We will also have to change our ideas about cooperative farms. My idea of such farms is that they should excel in modernizing crop production in order to obtain higher yields and more fodder to promote private stockbreeding.

[Dowda] Will new state farms be set up?

[Michalek] State farms are established from the lands of the State Land Fund. We are doing much to make those lands attractive for farmers. It goes without saying that more money can be made out of good lands. One of the measures to make not so good lands attractive for buyers is the proposed tax concessions. Every sector of farming should be treated in the same way when taking over lands from the State Land Fund, which means that loans should be granted to every sector for the development of the acquired land.

That development was usually associated with promoting stockbreeding, construction and large outlays. Today this is no longer possible because we have far more facilities for breeding animals than we have fodder. We have to cultivate soil, but at a lower cost--through the labor of two-three people for every 100 hectares....

[Dowda] This means that you are thinking of hard times.

[Michalek] Whatever is connected with production and farming must be based on rational economic thinking. We often talk about the difficulties and resistance that we have to overcome, especially in people's mentality. It is not only the rural people that I have in mind in this connection, but the fact is that it is more difficult to influence these people than any other people. Changing their mentality would produce great benefits. That is why this is a very important task for the party.

Looking after peasant interests means more than just looking after prices. It means telling farmers how to increase and rationalize production and even which lines of production to go for. Of course, you can make advisors responsible for everything. In such a case the unions and other associations will be liked and appreciated by farmers for helping them as they need to be helped and not for just giving them general advice. I myself prefer individual help to general advice.

What of general advice when the consumption of fertilizers continues to go down? Increasing the consumption of fertilizers, sowing productive seeds, and trying out a new brand of crops does not add to the uncertainty of farming. The situation is different with the farmers whose lands and climatic conditions are poor. It is difficult for them to achieve high production and make their farming profitable.

[Dowda] The conflict between the rural areas' expectations and the logic of economic thinking gives rise to criticism of the implementation of farm policy. What does this mean for the future?

[Michalek] We must not ignore what has been done in farming and for farming. You do not have to demonstrate good will to be able to positively evaluate many achievements.

However, all the discussions should produce the conclusion that it is necessary to switch over to more effective production and farming. Farmers continue to grumble at various meetings, but they do not question the arguments I put forward. It seems to me that when we talk about our needs and farming problems we very often forget about our possibilities resulting from the fact that agriculture is not some single, separate sector.

There is the national economy, and farming is one of its very important sectors. Farming will fare better if our national economy improves conversely, the national economy will fare better if farming improves. This phenomenon was convincingly explained by the report on the reasons for our social crises. Farmers need to understand this interdependence just as urgently as we--party functionaries and activists--need to.

CSO: 2600/874

## SEJM VICE MARSHAL DISCUSSES AGRICULTURE WITH EAST GERMAN JOURNALISTS

Bonn DIE LANDWIRTSCHAFT DES OSTBLOCKS in German No 4, 20 Jan 84 pp 1, 2

[Article: "Poland's Agriculture"]

[Text] The copy of a news story on Polish agriculture in the East Berlin BERLINER ZEITUNG is very revealing. Sejm Vice Marshal Zbigniew Gertych told the GDR journalists there was too little investment in agriculture in the 1970's. Only 4 percent of industrial production had been allocated for agriculture. Now it is twice as much. However, Gertych described 16 to 18 percent as necessary. The harvests in crop production in 1983 were "very good." That made it possible, for example, to export 60,000 tons of potatoes to the GDR. Of course, things look less favorable in animal production. Gertych cited as a problem the fact that in Poland 70 percent of the agricultural enterprises cultivate areas which are smaller than 5 hectares. The GDR journalists confirmed this during their trip through the Siedlce voivodship; in addition, they confirmed the predominance of horses over tractors. There are more than 100,000 farms in this voivodship. Some 70 percent of the total 620,000 inhabitants live off agriculture. In respect to meat and potatoes the ranking of the voivodship is significant; in respect to milk it even leads all voivodships. Approximately 97 percent of the 600,000 hectares of land in agricultural use are worked by private operators. The GDR journalists were told in the voivodship's party office that they are convinced that the future belongs to the socialist forms of enterprises. But at present the 33 agricultural producer cooperatives (LPG) and the 11 state-owned farms play a very modest role. The group of journalists visited a relatively large LPG (79 hectares with 348 staff employees). Of course, in spite of the advantages of size there were only few connected areas. The members of the LPG reside in 24 villages so that the greatest distance between field and home is 25 km. The members receive a monthly income of 25,000 zlotys. The LPG's profit for 1983 was estimated at about 200 million zlotys, in 1981 it was 141 million. The GDR report suggests that Polish farmers will stand in line in order to be accepted into the LPG. But the question of work discipline would not play a role in this LPG because every new member undergoes a 3-month trial period as a candidate. The head of the LPG concedes, however, that until recently that was unique in Poland because a quarter of the Polish LPG's operate at a loss. This number also applies to the state-owned farms. The other enterprise which was visited and which as a state-owned enterprise specializes in broiler production likewise operates at a profit. This enterprise also succeeded in finding at home a replacement for the cancelled fodder imports from the United States so that it can even easily expand.

FLAWS OF CENTRAL PLANNING MODEL SINGLED OUT IN ECONOMICS JOURNAL

Centralization and Inflation

Warsaw GOSPODARKA PLANOWA in Polish No 1, Jan 84 pp 1-8

[Article by Jan Winiecki: "Sources and Manifestations of Inflation in Planned Economy"]

[Excerpt] The orthodox theory of planned economy denies the possibility of imbalances in planned economy to evolve into an inflationary gap and then into full-fledged inflation. It maintains that the decision center, first of all, controls wages and other earnings and prevents the development of an inflationary gap in the form of excessive money supply or forced savings, and, secondly, controls prices, preventing the development of an inflationary gap into inflation.

We have demonstrated repeatedly that the first of these assumptions is not true. There is a close link between the capital goods and consumer goods markets. Imbalances in the former quickly bring about imbalances in the latter and create an inflationary gap. The imbalances increase and decrease cyclically and are connected with the investment cycle in the planned economy.

The second of the above assumptions is true, but only formally. Prices are indeed controlled completely or to a large extent by the decision-making center. As a result, a rise of retail prices usually occurs by central decision. In the last few years, decision-making centers in all socialist nations have been using, to a lesser or greater extent, their powers in this respect. Therefore, indeed, a spontaneous conversion of an inflationary gap into an outright inflation does not occur, but, regardless of an open inflation that is reflected in retail price index, there appear in a planned economy certain "overflows" from an inflationary gap into inflation which are not reflected in this index.

Implications for Anti-Inflationary Policy

In fact, the inflationary sources are basically the same as in the market economy, but because of the different systems of incentives and institutional differences, the recommendations are largely different, especially

because the triple form assumed by inflation calls for differentiated remedial tools.

The author subdivides recommendations on this issue into two groups. The first group includes suggestions aimed at eliminating the continuing existence of the inflationary gaps and the concomitant existence of immeasurable "overflows" causing the growth of prices without the change of the retail price index. Since the inflationary gap and the covert inflation result from the operation of the centralized model of a planned economy, the following recommendations in principle are in agreement with those concerning the reform of the system of planned economy, and, in particular, include the following actions:

1. Elimination of distortions in price relations in the planned economy. This will return to prices their informative function as an indicator of the shortage of material reserves and productive capacities and in this manner --among other things--will eliminate the artificial lowering of prices for capital goods, giving a realistic appraisal of capital costs. Investment will become more expensive, both in relative and absolute terms, because other methods of increasing profits than through increased productive capacity and output growth will become in this way more attractive.

2. Introducing profit as the basic criterion of efficiency (and processing capacity) of an enterprise. This way will provide the condition for creating a system of incentives positively correlated with the value of products and negatively correlated with the cost of utilized productive capacities and reserves. The possibility of maximizing profit through minimizing cost and not just maximizing output will enhance these innovative tendencies.

3. Actions aimed at increasing competition on domestic markets. This is a sine qua non of both innovation and decreased pressure towards growth of prices, which translates into covert or overt inflation. As is known from economic publications, it is not only positive incentives but also negative incentives such as pressure by competitors that cause domestic producers to enhance efficiency in terms of costs, quality, modernization, improved price discipline, etc.

These recommendations are not new. Along with elimination of the Kornai soft budget limitations, the hierarchical institutional structure and return to the currency of its informative and price-forming function, they constitute a system of actions that have been implemented to different degrees in the framework of Hungary's economic reform and which have been presented in various discussions as the desirable alternative of reform in Poland.

In reality, replacing the centralized model by a decentralized one would permit eliminating the continuing imbalance in the planned economy. The author does not believe it necessary to go into detail about the problems of systemic reforms. He mentioned this scope of problems solely because the development of inflation in its various forms is closely connected, as has been underscored, with the centralized model of a planned economy. The

reforms that eliminate the particular elements of this model will therefore also have an anti-inflationary effect.

With the elimination of the major causes of demand inflation created in the framework of a centralized planned economy, the manifestations of traditional demand inflation could be dealt with by the economic policy with the aid of traditional tools, primarily by reducing state budgetary spending (and at least not by, for instance, raising taxes levied from enterprises, which in turn raises costs and leads to higher and not lower prices), as well as with the aid of monetary policy. The author also believes that in the specific conditions of adaptation to the decentralized system the regulation of interest rates will not be sufficiently efficacious, and it should be supplemented by some differentiated treatment and rationing of credit for various categories of borrowers (based on equality within each category).

To the extent that the economic growth becomes possible in a balanced situation, the center of gravity of anti-inflationary policy will be shifted towards the fight against the cost inflation. An important role will have to be played by the earlier-mentioned actions towards promotion of competition. They can be threefold in nature: stimulation of the growth of competition between domestic producers, stimulation of increasing foreign competition in the domestic market and antimonopoly control. Since the capacity for increasing foreign competition depends on the balance of payments, they will not apply too broadly during the adaptation period. This attaches additional importance to the remaining two types of action, especially since the high level of economic concentration in a planned economy makes the antimonopoly controls particularly important.

Inflation of the type described in the previous section is the result of conflict between the needs of stimulating the productivity growth and the social expectations of the approximate wage growth rate in the entire economy, and it will require (as the inflation caused by the cycle "excessive productivity - profits - wages - costs - prices" in the market economy) a broad consensus, although at this point it is difficult to define the participants of this consensus and the procedure for attaining it.

Without prejudging the issue, we must, however, hope that the growth rate of prices during the adaptation period to the decentralized system will be relatively higher than in the industrialized nations with a market economy. Learning new rules by all participants--decision-making centers, enterprises and employees--as well as any other learning, is expensive, and the gradual approach to an efficiently functioning decentralized model will make the economy pay primarily in the form of higher prices (although they will come in conditions of gradual improvement of economic efficiency).

Even after a more or less prolonged period of adaptation, the cost inflation will not lend itself to complete elimination (no more than in market economies). This is a common assumption, and it is not affected by the model of planned economy to which it refers. Overt inflation has an advantage over covert inflation and over the existence of an inflationary gap (or both of

these phenomena) in that it does not distort the basic proportions in the economy, cost evaluations, etc., and it links the economic growth with the consumption growth more directly than what occurs in a centralized planned economy. The inevitable undesirable consequences of inflation can be counteracted when it is open (and only under this condition) by the use of such levers as a system of adjustment of wages and other incomes to price movements (indexing).

#### Accounting for Economics of Scarcity

Warsaw GOSPODARKA PLANOWA in Polish No 1, Jan 84 pp 21-28

[Article by Grzegorz Kersten: "Macroeconomic Models and Regulation Mechanisms of the 'Economics of Shortage'"]

[Excerpt] Introductory Remarks

The economics of shortage is a term applied to a class of economic systems. J. Kornai<sup>1</sup> introduced this concept to describe the fact that each system in a specific class has phenomena of shortage of production and consumption means and labor. In individual types of systems (for example, in Hungarian economy before and after the 1968 reform, in the Polish economy from the early 1970's and currently), the scope and degree of shortages can and usually do vary. In each system, however, shortages are a constant phenomenon, causing various negative consequences.

Permanent shortages affect the behavior of economic organizations and of the center--the organization that manages the system development and operation. They have an impact on the form of the economic system. This does not mean that shortages constitute the particular form of the system. They are a result of institutional decisions and regulation mechanisms operating in the economy.

If shortages occur in an economy constantly and cause specific effects, it is natural to call for incorporation of this category into macroeconomic models. This requirement is advanced by J. Kornai,<sup>2</sup> who, in his latest book, built a model of the economy which, among other things, includes variables and parameters describing shortages.<sup>3</sup> This model is experimental. Data describing shortages are fragmentary and reflect only some of the economic processes. The model includes few regulation mechanisms of shortage economics. For this reason, it leaves open the question of whether it is possible to measure shortages and evaluate their influence on the course of economic processes, and if so, to what extent. Measurements and evaluations and incorporation of regulation mechanisms should be accurate enough to make a model applicable to practice.

The economic models that have been built in socialist countries failed to consider shortages, and certain phenomena and tendencies that take place in

these systems. Attempts at modeling economic processes in conditions of insufficient supply have been made.<sup>4</sup> Problems of shortages, however, were interpreted as transient phenomena, caused, for instance, by a shortage of productive capacity reserves. In macro- and microeconomic models, the interests and aspirations of enterprises were disregarded. They failed to consider the uncertainties occurring during the course of the process of production, its causes and effects.

In this article, we will attempt to give partial answers to the following questions. Are the existing macroeconomic models and the models that could be constructed usable? Can application of such models in decision-making help arrive at efficient decisions, that is, such whose effects would correspond to the expected requirements? Will introduction of models into decision-making help raise economic efficiency?

### Concluding Remarks

A modeling approach to economics has proved impossible in practice. This was due to the functioning of the economics of shortage. A general optimization is impossible because of social factors.

Replacing some of the bureaucratic mechanisms with models is an extreme case. Macroeconomic models can be used in decision-making processes and make the functioning of mechanisms more efficient. This calls, however, for identifying and institutionalizing trade mechanisms and intervention mechanisms. It will require a continuing analysis of their operation and effects on real processes. This will call for studying the effect of bureaucratic mechanisms on the real world and definition of relationships between the mechanisms, shortages and trends.

These requirements seem to be only partially implementable. It is impossible, for instance, to resolve such problems as identification and institutionalization of trade. M. Ostrowski and Z. Sadowski<sup>5</sup> have ascertained that a question-answer game takes place in the economy where the questions are addressed to the center. This does not apply, however to auction mechanisms. They appeared as responses of economic organization to management based on bureaucratic mechanisms and institutionalized solutions. In the economics of shortage, auction mechanisms replace the self-regulation mechanisms and "simulate" markets.

Institutionalization of auction mechanisms would convert them to mechanisms of bureaucratic regulation and thereby further enhance the dependency of organizations on the center. The economic organization would certainly have to find a response to such questions, which is possible.<sup>6</sup> This could be the creation of new auction mechanisms operating in parallel to those existing today.

The economic system belonging to the class of economics of shortage is constructed by a method that brings it close to mechanistic organizations, which are also called bureaucratic organizations.<sup>7</sup> Organizations of this type are relatively easy to describe in formal terms. They have a distinct subdivision into elements, relations (subordination and superiority) between



the elements, they have defined rules and principles of interaction of elements. The problem lies with the fact that the economy is a system of a high degree of complexity and operates in an uncertain and variable environment. Using rigid rules (bureaucratic mechanisms) limits the possibilities of adaptation of the economy to the variable conditions and expectations and prevents effective management. This results in tensions and shortages, which at least partially must be resolved. The function is fulfilled by auction mechanisms, stocking of supplies, reserves of productive capacities and labor, and decisions made in a manner that relieves everyone of responsibility, etc. All these elements cannot be incorporated in the existing methods of formalized descriptions of the economics of shortage.

In view of the unsuitability or at least great limitations of the macro-economic models for the decision-making process performed by the center, we can advance the hypothesis that they are not necessary and cannot help to enhance the economic management efficiency. The alternatives to the economics of shortages known thus far are ineffective systems and primarily systems which are not economical (not cost-effective). This naturally suggests trying to find new alternatives. The alternatives that stand close to the traditional system have been tested in practice and did not bring about a rise of economic efficiency. For this reason, the search continues for alternatives based on self-regulatory mechanisms in which mechanisms of bureaucratic regulation would play a secondary part--coordination and control. This leads to system decentralization and the use of primarily economic levers by the center.

A real economic decentralization and reliance on levers of economic policy is impossible unless there are data on the methods of functioning of the economy, the existing tendencies, organizational goals, etc. The use of similar economic tools to various purposes must be based on model analyses and preceded by studies of effects and side-effects if they are to be efficacious. No such data are available, which is major obstacle why the center cannot manage the economy effectively. As a result, there develop or are enforced opposite, centralizing tendencies. A return to large-scale use of bureaucratic mechanisms sets in, and, as a consequence, the mechanisms of auction. This contributes to low system economicity and--after a certain time--to the appearance of tendencies for decentralization and introduction of market mechanisms. This process can be called the vicious cycle of decentralization.<sup>8</sup>

The foregoing discussion proceeded from the existing theory of socialist economics. One could propose the hypothesis that its development and elaboration of theoretic concepts that would stand closer to the realities could help the construction of practically applicable models. It seems that Kornai's theory represents such an approach. He formulates a systematic concept that describes the economics of shortage ever more accurately, developing increasingly realistic models. The results of his studies, however, contribute more to theory than to practice.

It seems that, with the institutional solutions and regulatory mechanisms practiced in the economics of shortage, further development of the economic theory could help develop models and better understand the functioning of the system, predicting its changes and transformations. It will not, however, largely influence the application of models in decision-making processes, both at the macroeconomic and microeconomic levels. It is noteworthy that Kornai's concepts have been utilized in the practice of a totally different economic system--in developing models describing sectors of Mexico's economy.<sup>9</sup> Another instance is the auction models developed in Western nations. They are not utilized in the economics of shortage, despite the fact that they describe well the interactions between organizations at various levels.

### Regional Cooperation

Warsaw GOSPODARKA PLANOWA in Polish No 1, Jan 84 pp 37-41

[Article by Boleslaw Warzecha: "Cooperation in Regional Systems in the Conditions of the Reform"]

[Excerpt] One of the negative consequences of long-term centralization and the principle of planning and management by directives and distribution of functions and the ministerial-branch organizational subdivisions is the weakening of community ties and cooperation of the individual economic units. The objects of cooperation may include: environmental protection, water management, the search for local raw material resources, use of unconventional energy sources, waste recycling, land management, etc. Trends in enhanced cooperation and improvement of its effects can develop on an interactive basis and can appear through the development of interaction balance sheets and a variety of such balances--interactive, synergistic balances.<sup>10</sup>

Identifying and determining the needs and capacities of interaction of the economic units in a region does not in and of itself mean the existence of a regional system, let alone an effective system that promotes the reformed economy. First of all, in various regional communities one observes phenomena that have negative effects for the community as well as for the entire national economy. It would be wrong to interpret every community as a regional system; there exist, however, many such communities where regional ties can be developed and where joint efforts can obtain better effects than individual actions.

The world shortage of raw materials and energy resources that exists now and is expected to intensify, which in Poland's situation is aggravated by import and payments restrictions, highlights the concern for these areas in local enterprises. Media report on technical initiatives undertaken to recover waste gas, heat and fuels at blast furnaces and chemical plants. Most such activities are done in-house, as local solutions of an individual enterprise, and therefore have only partial, suboptimal effects. In a report from the FRG, Michal Jaranowski describes an energy efficiency revolution--namely, activities that have all the traits of regional systems which make use of so-called recovered energy sources. The method of Thomas Mathen has been used to develop the regional heating system in the Ruhr mines, and it became the base for the

cooperative network developed in 1980 as "Heating Network Lower Rhine-Dinslaken-Duisburg-Moers." The contract has been concluded among four major enterprises: metallurgical plant, steel rolling plant, sulfuric acid factory and coal power plant. An installation has been put in place to capture the emission gases--which have temperatures of hundreds of degrees--to be used to heat running water in a 34-kilometer-long supply system. Seven stations distribute the water directly to housing units. The Beeckworth steel rolling plant produces 4 million tons of sheet steel annually, and now gas that used to pollute the environment provides 310 million kilowatts of energy, which is sufficient to heat 26,000 apartments of an average size of 70 m<sup>2</sup> for the entire year. The system as a whole, however, provides heat to 80,000 such apartments. A component of the project is heat storage capacities and utilization of conventional energy sources in emergencies.<sup>11</sup>

The idea of development of regional community systems is linked with the hope that "community people" could find in such systems a platform for implementing the primary goals of the community through partial regional economic objectives which bring about the local economic effects. This hope has been confirmed in practice. In this sense--in building regional systems--we will find support both for environmental protection<sup>12</sup> and for actions aimed at overcoming the crisis, especially through the savings program.

#### FOOTNOTES

1. J. Kornai, "Economics of Shortage," Amsterdam, North-Holland, 1980.
2. Ibid.
3. J. Kornai, "Growth, Shortage and Efficiency," Oxford, Basil Blackwell, 1982.
4. L. Tomaszewicz, "Integrated Models of National Economy," Warsaw, PWE, 1983.
5. See M. Ostrowski and Z. Sadowski, "Development Stimuli," Warsaw, PWE, 1978.
6. In all social organizations and systems, the participants enjoy a certain margin of liberty and can utilize it. The behavior of participants, including economic organizations, are never entirely subordinated to directives. They are also the result of trade and negotiation. See M. Crosier and E. Friedberg, "Man and Systems," Warsaw, PWE, 1982.
7. See A. Kaminski, op. cit.
8. See G. Kersten and W. Michalowski, "Choice of Management Instruments in a Decentralized Economic System," in "Materials and Studies," Warsaw, ICiZ SGPiS (in press).

9. "Multi-Level Planning: Case Studies in Mexico," eds. L.M. Geroux and A.S. Manne, Amsterdam, North-Holland, 1973.
10. See B. Warzecha, "Interactive Balances (in the Context of the Economic Reform)," GOSPODARKA PLANOWA, no 12, 1982.
11. M. Jaranowski, "Keeping the Heat," POLITYKA, no 9, 1983.
12. See J. Dzieciolowski, "Will We Have Our Own 'Greens,'" ZYCIE GOSPODARCZE, no 15, 1983.

9922

CSO: 2600/767

## BRIEFS

**INCOME LEVELING TAX CHANGES**--We recently reported that the Ministry of Finance is planning to soften the impact of the income leveling tax regulations. According to confidential information passed along to us at the Ministry, the first draft of these revisions has already been completed. It is expected that the existing threshold for tax-free earnings, i.e., Z300,000 per annum, will be retained. However, the taxation rate will be greatly reduced, and the income brackets will be enlarged. The proposed revisions provide that the greatest tax relief will apply to incomes in the bracket range of Z25-40,000 per month. For example, an annual tax of Z3,000 is now paid on monthly earnings of Z27,000, whereas it is now proposed that this tax should be dropped to Z480 (2 percent of the amount in excess of Z25,000. On the other hand, the current yearly tax bill on a monthly income of Z40,000 comes to Z58,200, whereas the revised tax rate would make the bill come to Z18,400 or Z1,540 per month. The tax progression on earnings between Z40-55,000 was also revised, although not to the same degree. The rate of tax relief declines as earnings rise above this level. In the past, the tax bracket changed with each additional Z12,000. Under the new rules, brackets would change every Z24,000. For example, the old bracket scale of Z300-312,000, Z312-324,000, and so on would be changed to reach Z300-324,000, Z324-348,000, and so on. Whatever one says about these proposed adjustments in the tax rate mechanism, they are not going to go far enough until the threshold for tax-free earnings is raised. All the more so, since the number of people earning more than Z25,000 per month is constantly growing. [Text] [Warsaw KURIER POLSKI in Polish 14 Mar 84 p 1]

**LONG-RANGE FUELS-ENERGY PROGRAMS**--Poland's current fuels and energy supply situation is relatively favorable. There are no shortages of hard and brown coal or electricity. But things look worse when it comes to supplies of liquid and gaseous fuels. According to the conclusions which were drawn on 22 March at a joint meeting of the merged science and technology councils for mining and the power industry working under the minister of the mining and power industries, the country's future economic growth will be feasible only insofar as provisions are made for the allocation of appropriate resources allowing for the harnessing of new fuels and energy reserves. The rationalization of the system for the management of fuels and energy resources is an equally important task. Bearing these facts in mind, both councils declared that it is necessary to draw up a long-range program for the development of the country's fuels and energy base. Draft versions of

these kinds of programs have already been drawn up at the Ministry of Mining and the Power Industry. According to the forecasts contained in these studies, aggregate demand in Poland for fuels and energy will increase from approximately 162,000 tons last year (as measured in so-called standard fuel units) to 254,000 tons in 2000. During this period demand for an energy resource like hard coal will increase to a level of around 220 million tons. Mine production capacities must be adjusted so as to accommodate this demand. Next, in the power industry it would be desirable to speed up work on the construction of the "Opole" power plant and the "Mloty" pumped-storage power plant. The growth of the nuclear power industry will also be of critical importance. [Text] [Warsaw RZECZPOSPOLITA in Polish 23 Mar 84 p 5]

CSO: 2600/849

EUROPEAN INVESTMENT BANK LOAN FOR RAILROAD DEVELOPMENT

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 13 Feb 84 pp 11-12

[Article: "European Investment Bank Loan for YU Road"]

[Text] Three years after a protocol was signed between Yugoslavia and the EEC concerning a loan of 200 million, European accounting units for the construction of infrastructure projects in Yugoslavia (a transmission network for electrical energy, a major highway and rail line between Jesenice and Gevgelija), an agreement was finally signed concerning a loan of approximately \$60 million from the European Investment Bank for modernizing the railway line between Jesenice and Gevgelija. The loan is for 20 years, with a grace period of 3 years, and an interest rate of 10.75 percent. The total cost of the modernization program for this line will come to approximately \$140 million, so the European Investment Bank is taking a 40 percent interest in this project.

In accordance with this program, which the European Investment Bank is financing within the jurisdiction of the Ljubljana Railway Construction firm, the border crossing railway station at Jesenice will be remodeled and modernized with the latest equipment, then major repairs will be carried out on 65 kilometers of track; a portion of the money will be invested in the development of a modern information network for drivers. The Zagreb Railway Transport Organization will also spend part of the money for the development of a modern information network for drivers, and it will carry out major repairs on 65 kilometers of track and will install automatic crossing guards on 134 kilometers of rail line. Within the jurisdiction of the Novi Sad Railway Transport Organization, major repairs will be carried out on a length of approximately 50 kilometers of the southern part of the Srem line which has been worn out. In the Belgrade Railway Transport Organization jurisdiction, a double track will be constructed on the Batajnica-Ostruznica route for a length of 27 kilometers. The construction of this line--that is, the double track--is considered to be a bypass for the Belgrade railway hub, which is notorious in European railway circles for the fact that both getting in and out of it is a very difficult task. In the Skoplje Railway Transport Organization jurisdiction, the electrification of 200 kilometers of rail line from Skoplje to Gevgelija--that is, to the Greek border--must be completed. It has already been begun. By completing it, the entire Jesenice-Gevgelija line would finally be electrified.

The concluded agreement between Yugoslav Railways and the European Investment Bank is especially significant not only for the two partners, but--undoubtedly

in a much broader sense--for the development of economic relations between Yugoslavia and the countries of the EEC, where the Yugoslav Railways and the travel industry of our country act as a bridge for the transportation of goods between Greece and the other EEC members, and subsequently between Turkey and the countries of the Near and Middle East. It is thought that within this economic grouping over the coming decades trade will increase on many levels between the countries of West Europe and the countries and regions in southeastern Europe, which were mentioned above, and on into Asia. Yugoslavia--or more precisely, Yugoslav Railways--has a prime role in transportation here. Moreover, it is quite apparent that the present right-of-way of the Yugoslav Railways line does not even come close to satisfying the present-day volume of shipping which takes place on it, including of course goods in transit, and this is to say nothing about the anticipated growth in the volume of transit.

While keeping aware of the presumed future changes concerning transportation, one must keep in mind that implementing the current modernization program and removing some of the bottlenecks on the lines will not mean that the task of totally preparing the line for speeds of up to 160 kilometers/hour has been completed. On the contrary, one need only recall that the Belgrade railway hub has not been completed, either with regard to freight transport capacities or passenger transport capacities. It is worth noting for this very reason that the president of the European Investment Bank, after signing the loan agreement for modernizing the line, visited construction projects involving the Belgrade railway hub, and his announcement that the European Investment Bank might possibly take part in financing its completion is especially worthy of note.

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CSO: 2800/236



## YUGOSLAVIA

## COMMODITY BREAKDOWN IN 1983 TRADE WITH USSR

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 26 Mar 84 p 27

[Text] As is well known, the USSR is Yugoslavia's largest foreign trade partner. According to figures of the Federal Bureau of Statistics, in 1983 miscellaneous goods were exported to that country in the amount of \$2,699 million, which represents 27.2 percent of the total value of our exports. At the same time \$2,463 million were recorded on the import side, which is 20.3 percent of total Yugoslav imports.

Compared to the previous year, 1982, there was a drop in visible trade: exports declining \$725 million, or 21.2 percent, and imports dropping \$273 million, or 10 percent. When exports are compared to imports, there proves to be a trade surplus of \$236 million, by contrast with the surplus of \$688 million in 1982.

In the breakdown by types of goods, the largest export item to the USSR last year was clothing and footwear, for a total value of \$591 million, or 21.9 percent of total exports for that country. The table below gives these figures for the most important products (with percentages of the item's share in total exports to the USSR).

<u>Type of Commodity</u>	<u>Exports (mil- lions of dollars)</u>	<u>Share, %</u>
Footwear	360	13.3
Clothing	231	8.6
Valves and faucets	152	5.6
Aluminum oxide	116	4.3
Lead and other storage batteries	106	3.9
Parts for motor vehicles	90	3.3
Metalworking machines	83	3.1
Canned meat products	76	2.8
Roof fabrications and iron and steel fabrications	71	2.6
Pharmaceuticals, finished	66	2.5
Telephone switchboards	57	2.1
Cotton, woolen and synthetic fabrics	56	2.1
Wire and cable	53	2.0

Table (continued)

<u>Type of Commodity</u>	<u>Exports (mil- lions of dollars)</u>	<u>Share, %</u>
Bulldozers, mixers, rollers and other machines for excavation and grading	51	1.9
Nuclear reactors	43	1.6
Wood furniture	41	1.5
Machines for the food processing industry	39	1.5
Axles, gears, gear boxes and clutches	37	1.4
Tugboats	35	1.3
Carpets and bedspreads	33	1.2
Corn for planting and processing	32	1.2
Rubber belts, conveyor belts and floor coverings	31	1.1
Tobacco and cigarettes	30	1.1
Conveyors, cableways and parts	30	1.1
Other products	<u>780</u>	<u>28.9</u>
Total	2,699	100.0

As for imports, the largest import items were crude petroleum and natural gas in the total value of \$1,228 million, which represents 49.8 percent of total imports from the USSR. The table below gives a survey of products which had the highest proportions in total imports from that country:

<u>Type of Commodity</u>	<u>Imports (mil- lions of dollars)</u>	<u>Share, %</u>
Crude petroleum	749	30.4
Natural gas	479	19.4
Coking coal	125	5.1
Raw cotton	91	3.7
Gas oil and heavy furnace oil	63	2.5
Scrap iron and castings	61	2.5
Raw aluminum	53	2.2
Automobiles, trolleybuses and trucks	53	2.2
Cellulose	39	1.6
Rubber	36	1.4
Pulpwood, softwood and hardwood	32	1.3
Potassium chloride	31	1.3
Other products	<u>651</u>	<u>26.4</u>
Total	2,463	100.0

Our country's visible trade with the USSR over the last 5 years is shown in the following tables.

<u>Year</u>	<u>Exports (mil- lions of dollars)</u>	<u>Share in Total Exports, %</u>
1979	1,401	20.6
1980	2,489	27.7
1981	3,644	33.3
1982	3,424	34.5
1983	2,699	27.2

<u>Year</u>	<u>Imports (mil- lions of dollars)</u>	<u>Share in Total Imports, %</u>
1979	1,793	12.8
1980	2,698	17.9
1981	2,966	18.8
1982	2,736	21.5
1983	2,463	20.3

Total visible trade with the USSR over the last 5 years amounts to \$26,313 million; exports have a share of \$13,657 million (29.3 percent of total exports) and imports a share of \$12,656 million (18.1 percent of total imports).

It is worthwhile on this occasion to give figures on the growth of exports and imports between 1978 and 1983. That is, exports increased \$1,671 million, or 162.5 percent, over those 5 years, while imports increased \$1,088 million, or 79.1 percent.

The difference between exports and imports--that is, the deficit of surplus in the trade balance--offers the following picture over that period:

<u>Year</u>	<u>Deficit (mil- lions of dollars)</u>	<u>Surplus (mil- lions of dollars)</u>
1979	392	
1980	209	
1981		678
1982		688
1983		236
Total	601	1,602

It is evident from the table that a surplus of \$1,001 million has been achieved in visible trade over those 5 years between our country and the USSR.

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CSO: 2800/269

## INTER-ENTERPRISE AGREEMENTS BETWEEN KOSOVO, OTHER SFRY AREAS

Pristina RILINDJA in Albanian 10 Mar 84 p 4

[Excerpt] (beginning of 1983, in millions of dinars)

Republics/Province	Number of Agreements	Value of Projects	Pooled Funds	Funds from Credits	Other Sources	Per- centage
Bosnia-Hercegovina	3	1,480.3	467.5	573.0	261.0	31.6
Croatia	15	9,685.1	4,316.5	2,232.1	3,009.3	44.6
Slovenia	13	8,063.0	3,012.8	1,377.2	3,484.0	37.3
Serbia	17	6,435.2	2,769.0	1,390.9	1,440.6	43.0
Vojvodina	5	2,944.0	1,478.8	1,029.6	366.0	50.2
Agreements with several areas	4	16,357.5	4,370.1	131.2	3,440.7	26.7
Total	57	44,965.1	16,414.7	6,743.0	12,001.6	36.5

CSO: 2100/37

# REPUBLIC BREAKDOWN OF 1983 OIL IMPORTS

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 8 Mar 84 p 3

[Article by Milorad Urosevic: "What Direction for the Distribution of Imported Energy?"]

[Text] Of the total of 9.4 million tons of crude oil imported, two-fifths were purchased in convertible currency markets, and three-fifths in clearing markets.

As this journal was being completed on the last day of January, the Executive Board of the General Association for Oil Economics of the Economic Chamber of Yugoslavia had not reached an agreement on the distribution of imported crude oil for this year--as had been anticipated in the plan of implementation of the Resolution on Economic Development for this year--within the time period allotted. The deadline was the end of January.

In the meantime, the Federal Statistics Bureau has published the final data on the import of both oil derivatives and coal for coking for the past year. Of these data, it is precisely those on the import of crude oil which are most distinctive.

For the import of these raw materials, which was organized and carried out in the General Association for Oil Economy of the Economic Council of Yugoslavia, 138.3 billion dinars, or \$2,181,500,000, was paid out, and 9,399,000 tons of oil was received in return. Thus, an average price of 14,974 dinars, or \$232.10, was paid for each ton of crude oil, and normally the republic and provincial economies are obligated for the share of oil which belongs to them on the basis of this price, or possibly on the basis of a slightly adjusted price. The collective data in the table show how the distribution was carried out and what the costs should be.

One can see from the table that 3.79 million tons of crude oil were purchased in convertible currency markets, amounting to 40.3 percent of the total oil purchased, at an average price of 15,110 dinars, or \$238.30, per ton. The remaining 5.6 million tons, or 59.7 percent, were obtained from the clearing exchange markets at an average price of 14,448 dinars, or \$227.90, per ton.

One will notice that Montenegro is not obligated for the import of oil. Bosnia-Herzegovina obtained 76.7 percent of its needs in the clearing markets--at a price noticeably lower than the average--and only 23.3 percent in the convertible markets. Macedonia had a breakdown of 70 percent to 30 percent in favor of cheaper

# Imported Oil by Republics and Provinces for 1983

Social-political community	Total Imports		Breakdown from Market					
	Quantities		Value		From Convertible		From Clearing	
	000's tons	%	Bills. of dinar	%	000's tons	% of total	000's tons	% of total
SFRY	9,399	100.0	138,308	100.0	3,790	40.3	5,609	59.7
Bosnia-Hercegovina	1,771	18.8	25,678	18.6	412	23.3	1,357	76.7
Montenegro	-	-	-	-	-	-	-	-
Croatia	2,403	25.6	34,859	25.2	1,259	52.4	1,144	47.6
Macedonia	1,088	11.6	16,272	11.8	320	29.4	845	70.6
Slovenia	562	6.0	8,015	5.8	243	43.2	319	56.8
Serbia w/o provinces	965	10.2	14,923	10.8	610	63.2	355	36.8
Kosovo	29	0.3	.494	0.3	29	100.0	-	-
Vojvodina	2,151	22.9	31,644	22.9	917	42.6	1,234	57.4
Federation	429	4.6	6,424	4.6	429	100.0	-	-

oil from the clearing markets. Then came Vojvodina with a 57.4 percent to 42.6 percent breakdown, and Slovenia with a breakdown of 56.8 percent to 43.2 percent, both in favor of cheaper oil. Serbia, without the provinces, and Kosovo paid the most for oil. The province of Kosovo obtained all of its oil from the convertible market, at the higher price, and not a drop from the clearing market, although it carried out 72 percent more exports than imports with that area, with a value of 3.2 billion dinars.

Serbia, without the provinces, paid 749 dinars more than the average price for its 965,000 tons of oil, or a price of 15,464 dinars--\$244.00 a ton. This came out to a total of 727.8 million dinars, or \$11.6 million, more than it would have paid if it had bought at the average price. If it had obtained oil at the price Slovenia was charged, Serbia, without the provinces, would have saved 1.16 billion dinars, or \$18.3 million, a sum of money which is all too significant.

Kosovo bought more expensive oil, paying 1.158 dinars per ton over the average price (for a total of 29,000 tons, which means that it is not a question of a large sum of money). Serbia, without the provinces, paid 749 dinars over the average price. Vojvodina bought cheaper oil at a cost of 4 dinars a ton below the average, Croatia got its oil at 209 dinars below the average, Bosnia-Hercegovina at a price 216 dinars below average, and as was mentioned above, Slovenia obtained its oil at a cost 453 dinars below the average cost.

9548

CSO: 2800/236

## BRIEFS

KOSOVO ADMINISTRATIVE STRUCTURE--As of 31 May 1983 the nationality structure of employees in administrative organs of Kosovo was as follows: Albanians 448 (61 percent), Serbs 201 (25.13 percent); Montenegrins 59 (7.38 percent), Muslims 18 (2.25 percent), Turks 14 (1.75 percent), and others 20 (2.50 percent). In 1980 the percentages were: Albanians 57.92; Serbs 27.96, Montenegrins 9.13, Muslims 1.7, Turks 1.57, and others 1.71 percent. At the same time percentages for the nationality structure of functionaries in opstina administrative organs (with the exception of Glogovac and Istok opstinas) were: Albanians 66.69; Serbs 23.61; Montenegrins 4.59; Muslims 2.41, Turks 1.25, and others 1.45 percent. [Excerpt] [Pristina RILINDJA in Albanian 21 Mar 84 p 7]

KOSOVO WHITE-COLLAR WORKERS--In 1982 one-third of those employed in Kosovo worked in jobs outside of the production economy; namely, 49,221 were employed as white-collar workers and 143,013 were employed in the production economy. [Excerpt] [Pristina RILINDJA in Albanian 25 Mar 84 p 7]

PLANTING IN KOSOVO--A total of 106,336 hectares (or 91.6 percent of the agricultural area) was planted in grains, industrial and forage crops and vegetables last fall. The grain planting plan was completed on 95,169 hectares or 91.5 percent of the planned area. Because of grain crop failure on 8,831 hectares, grain production is expected to be about 26,100 tons less. About 9,500 hectares more will be planted this spring to make up for the area not planted last fall; and the sown area will total 166,500 hectares of 6,500 hectares more than last spring. [Excerpt] [Pristina RILINDJA in Albanian 31 Mar 84 p 8]

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